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**AN ANALYSIS OF THE AGRICULTURAL DOMESTIC
SUPPORT UNDER THE URUGUAY ROUND AGREEMENT
ON AGRICULTURE: THE BLUE BOX**

Study prepared by the UNCTAD secretariat

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ACRONYMS

AMS	Aggregate Measurement of Support, a tool to measure the extent of domestic support a country provides to its agricultural products
CAP	Common Agricultural Policy, the whole of rules regulating agriculture in the European Union
CMO	Common Market Organisation, rules organising certain agricultural products markets in the European Union
EC	The European Communities
EU	The European Union
FAIR Act	The Federal Agriculture Improvement and Reform Act 1996 is the law ruling agriculture sector in the United States from 1996 to 2002, amended in 1998 with the introduction of LDP
FSRIA	Farm Security and Rural Investment Act 2002 is the new law replacing the FAIR Act
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
LDP	Loan Deficiency Payments, implemented from 1998 onwards by the United States as an emergency measure to compensate farmers from income losses due to unfavourable market developments
LU	Livestock Unit
MPS	Market Price Support
OECD	Organisation for Economic Co-operation and Development
PFC	Production flexibility contract, a measure implemented by the United States in the 1996 FAIR Act
PSE	Producer Support Equivalent, concept introduced by the OECD which measures the level of support granted to agricultural producers. From 1999, "Producer Support Estimate" has replaced it
SDR	Special Drawing Rights of the International Monetary Fund represents the fictive currency of the IMF
URAA	Uruguay Round Agreement on Agriculture
WTO	World Trade Organisation

All figures regarding domestic support by WTO member States are from official notifications from these States. Latest notifications are dated according to the table below:

Member State	Date of latest notification	Year concerned by the notification
European Union	11 June 2002	1999/00 (marketing year)
Iceland	11 March 2002	1999 and 2000 (calendar years)
Japan	5 February 2002	1999 (fiscal year)
Norway	27 February 2002	2000 (calendar year)
Slovenia	30 July 2002	2001 (calendar year)
Slovak Republic	11 September 2002	2001 (calendar year)
United States	23 December 2002	1999 (marketing year)

Last update of the list: 31 December 2002

INTRODUCTION

Domestic agricultural support is a sensitive issue for all countries producing agricultural commodities. Some countries grant large subsidies to producers, while others cannot afford such expensive policies. The Uruguay Round Agreement on Agriculture was a first step towards improving competition in the field of international agricultural trade. The new agenda of negotiations, agreed at the Doha Ministerial Conference, set new challenges for negotiators in terms of market access, export subsidies and domestic support. Although those three areas are linked to each other and are of importance, this short paper is not intended to address the whole problem but to focus on "Blue Box" measures in the context of domestic support.

The Blue Box is currently at the centre of negotiations on limits to domestic support. Although only a few countries use it, the amounts at stake are important.

This paper will define the Blue Box, describe the type of subsidies used under it and briefly analyse its potential for trade distortion. The amounts under the Blue Box will be compared with other types of domestic supports and a short test of the effects of integration of Blue Box measures into the Amber Box will be carried out. Lastly, the paper will describe the different proposals made in the WTO negotiations on agriculture by the main countries or groups of countries concerned.

The subject is evolving rapidly and some parts of this study may seem out of date at the time of printing. Nevertheless, the analysis presented here remains valid. The latest development was the very new Common Agricultural Policy agreed by the European Council on 26 June 2003. Even with this reform, in some cases a structure with premia and intervention price is retained (cereals, for example). The introduction of a single farm payment will replace most direct payments. The reform will enter into force in 2005 with a two-year transitional period. Full implementation will start in 2007 and be completed by 2014. The classification of domestic subsidies under the Amber, Green or Blue Box remains to be discussed during the next WTO agricultural negotiations.

I. DEFINITIONS OF THE BLUE BOX DOMESTIC SUPPORT MEASURES

A. The Agreement on Agriculture

1. Description

The Uruguay Round Agreement on Agriculture (URAA) was signed in 1994. It was the first time that the international community had agreed on reductions in export subsidies and restrictions, reductions in trade-distorting domestic subsidies and wider market access for agricultural products. With respect to domestic support measures, distinctions were made between three types of measures:

1. Trade-distorting support are classified as Amber Box. This support is subject to a 20 per cent reduction over a six-year period (1995–2000) from a "Total Aggregate Measurement of Support" (Total AMS) during a base period (1986–1988). This type of subsidy is classified as "Amber Box support" and includes mainly but not only market price support. A "Current Total AMS" is calculated annually by each country with reduction commitments and is notified to the WTO Committee on Agriculture. In addition, all subsidies are exempt from reduction commitments under a *de minimis* clause as long as they do not exceed 5 per cent of the value of production. These subsidies may be product-specific in which case the cap is 5 per cent of the value of production of this product, or may not be product-specific, in which case the cap is 5 per cent of the total value of agricultural production. Countries that did not use trade-distorting support in the base period cannot extend support exceeding the *de minimis* clause requirements, except if the subsidies are Blue or Green Box.
2. Subsidies that do not or only minimally distort trade are exempt from the reduction. These subsidies must qualify under criteria set out in the Annex 2 of the URAA, and are classified as "Green Box support".¹
3. Direct payments can be exempted from reduction commitments, and thus excluded from total AMS, if they comply with criteria set out in Article 6, paragraph 5, of the URAA. This exemption is called the "Blue Box". Direct payments must be under production-limiting programmes and comply with one of the three following conditions:
 - i) Payments are based on fixed area and yields;
 - ii) Payments are made on 85 per cent or less of the base level of production;
 - iii) Payments are made on a fixed number of livestock head.

There are also direct payments classified as Amber Box or Green Box. In the latter case, direct payments must be "decoupled" from production so as not to distort trade. For instance, direct payments for early farmer retirement are under the Green Box (they are not production-

¹ Subsidies under the Green Box must be publicly funded, must not have the effect of price support to producers and must fit into one of the following specific criteria: general services (research, inspection, infrastructure services, promotion and marketing services, etc), stock for food security purposes, domestic food aid (especially in developing countries in order to meet the food requirements of the population), direct payments to producers (as long as payments are decoupled from production), income insurance, natural disaster relief, structural adjustment assistance, environmental programmes and regional assistance programmes.

linked). Direct payments based on an historical number of livestock are under the Blue Box (they are related to production but are not producing incentives, and are limited to maximum). Direct payments based on the quantity of cereals produced without limitation are under the Amber Box.

Blue and Green Box support measures benefit from the Due Restraint Clause (Article 13, paragraph b of the URAA), known as the "Peace Clause", over a nine-year period (1995-2003). Blue and Green Box measures are thus exempt from countervailing duties. These subsidies are exempt from declaration to other parties under paragraph 1 of Article XVI of GATT 1994, are not actionable by other parties under Article 5 and Article 6 of the Subsidies Agreement, and are not actionable regarding "violation, nullification or impairment of the benefits of tariff concessions accruing to another Member under Article II of GATT 1994" or under paragraph 1b of Article XXIII of GATT 1994. However, in the case of Blue Box support measures, the last two exemptions from action are provided subject to the condition that support for a specific commodity under the Blue Box does not exceed the total support for this product during the 1992 marketing year.

At the time of negotiations it was also decided, in accordance with Article 20 of the Agreement, that "negotiations for continuing the [reform] process will be initiated one year before the end of the implementation period". Negotiations thus started in early 2000, and in November 2001 at the Doha Ministerial Conference a mandate was given to continue the negotiations, which have to end (as well as other agreements) by 1 January 2005.

The declaration adopted at the Doha Conference reaffirms the long-term objective set in the URAA. In terms of domestic support, the Doha agenda contains informal and formal special sessions aimed at elaborating technical and detailed possible modalities, including rules-related elements for domestic support policies in member States.

The following chapters will describe which countries have used the Blue Box so far, for which products and to what extent. All figures and graphs are based on Members' notifications to the WTO up to 23 December 2002.

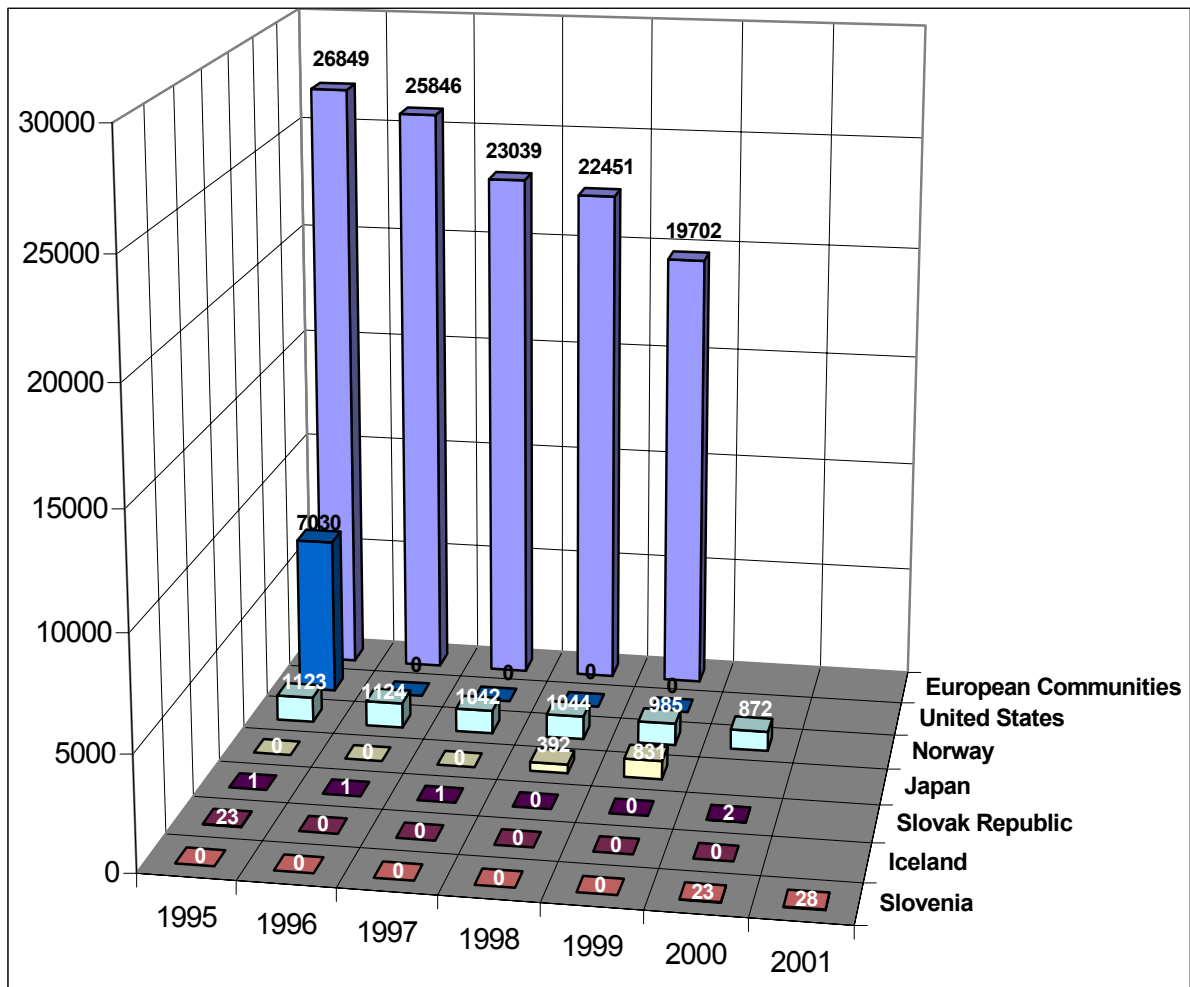
2. Blue Box support in figures

(a) In a common currency: US dollar

Annual notification of domestic support is mandatory for Green and Blue Box measures. Least developed countries can notify every other year. Countries without reduction commitments and support in exempt categories must notify in order to show that any support falls within the *de minimis* levels. Notifications are often made with considerable delay. They can be expressed in national currency or in foreign currency, in current terms.² In order to compare subsidies on the same ground, WTO Members asked the secretariat of the WTO to regularly provide a background paper on domestic support and *inter alia* on the United States dollar value of the domestic support figures notified.

² Some countries notify in current terms and in deflated terms. Paragraph (c) details the issue of the inflation.

Graph 1
Blue Box support in millions US dollars



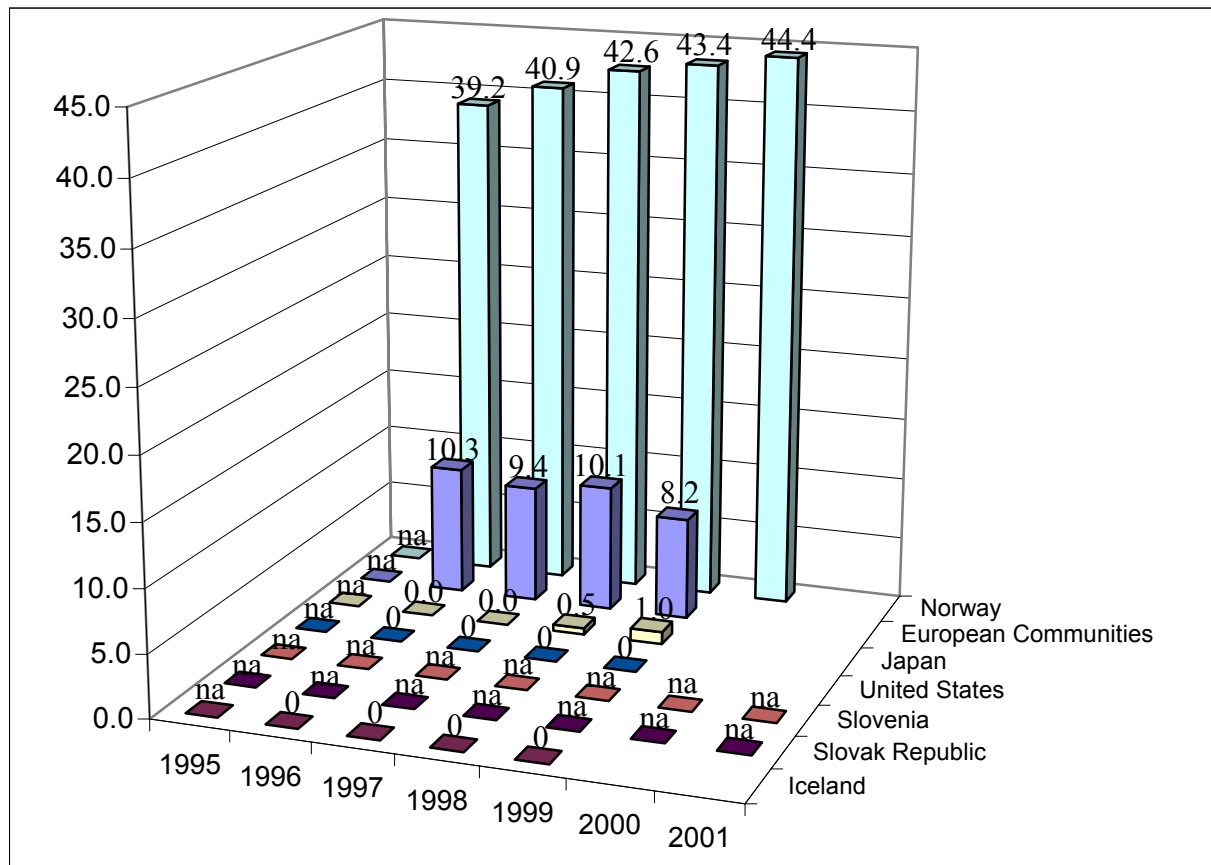
Source: UNCTAD secretariat calculations based on WTO Members' official notifications.

Graph 1 shows figures for the seven countries which have used the Blue Box at least once. With the exception of Slovenia, countries have not yet notified for the year 2001, and the European Communities, Japan and the United States had not yet notified for the year 2000 at the time of writing this study.

The European Communities are the largest user of the Blue Box, with an average of US\$ 23.5 billion per year over the period 1995–1999. The United States spent US\$ 7 billion in 1995. Norway spent on average US\$ 1 billion per year over the period 1995–2000. Japan is the fourth user of Blue Box support, with an average of US\$ 611 million per year over the period 1998–1999. The Slovak Republic, Iceland and Slovenia each spent less than US\$ 25 million in total over the period 1995–2000.

(b) Blue Box expenditures as a percentage of agricultural production value

Graph 2
Blue Box expenditures as a percentage of agricultural production value at farm gate



Source: UNCTAD secretariat calculations based on WTO Members' official notifications and OECD statistics.

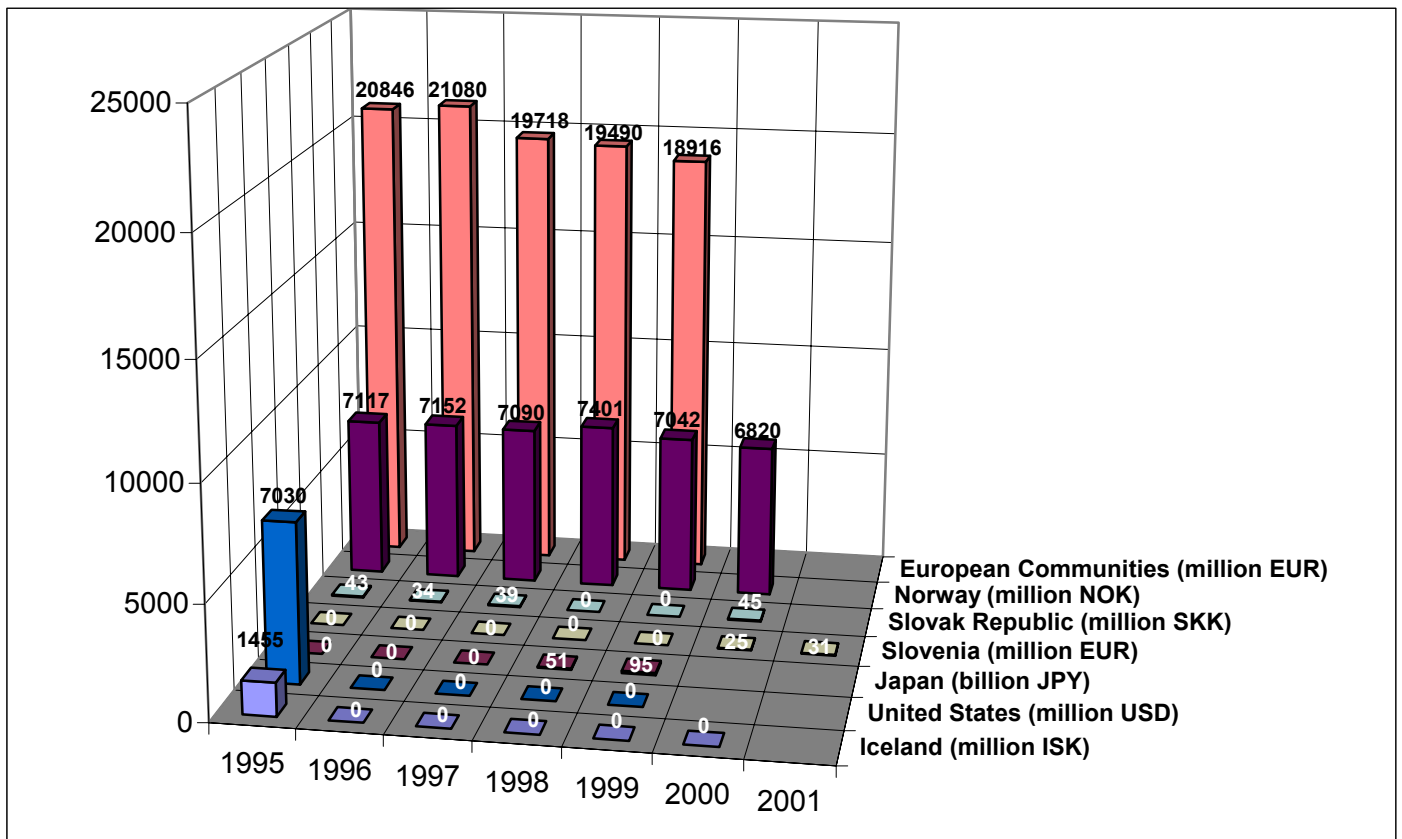
Graph 2 represents the amount given to the producer as Blue Box direct payments in relation to the value of agricultural production. Blue Box direct payments are additional to the value of farm production.

The European Communities use the Blue Box more than other countries in nominal terms, and these payments represent around 10 per cent of the value of agricultural production. The Blue Box expenditures of Norway in nominal terms are 20 times less than those of the EC, but they represent more than 40 per cent of the value of agricultural production.

(c) Taking account of inflation

Article 18, paragraph 4, of the URAA states: "In the review process, Members shall give due consideration to the influence of excessive rates of inflation on the ability of any Member to abide by its domestic support commitments". This rule is designed for AMS commitments. Nevertheless, we have chosen to investigate the implications of a hypothetical application of the rule to Blue Box payments.

Graph 3
Blue Box support in national currencies in real terms (1995 base)



Source: UNCTAD secretariat calculations based on WTO Members' official notifications.

In graph 3, payments have been deflated in order to provide a perspective of the evolution of support in real terms, using 1995 as a base year. As Blue Box supports are national disbursements, an appropriate deflator may be the GDP deflator. When the latter was not available, a Consumer Price Index (CPI) deflator replaced it.

At first sight, there is no notable difference between the graph with and without inflation. One can underline the accentuation of some trends in graph 1, such as the decrease over time in the amounts paid by the European Communities. In the case of Norway, a slight increase was transformed into a decrease from 1997 to 2000. Expenditures remain stable for the Slovak Republic and Japan.

The inflation issue was raised by Iceland and South Africa among others and the WTO secretariat was asked to provide a background paper.³ The paper simulates four different AMS calculations, taking into account the effect of inflation on market price or administered price. In the case of support measured by subsidy outlays and commitments based on market

³ Inflation and exchange rate movements in the context of domestic support commitments, background paper by the Secretariat, 23 October 2000, G/AG/NG/S/19.

price, it is obvious that the inflation is already included in the calculation of the commitments, and thus the subsidy cannot breach the commitments because of the inflation.⁴

According to the WTO background paper in the case of market price support, the AMS calculation procedure used implies that inflation is not taken into account, since it is assumed that the administered price (or the price established by a national authority) is not subject to inflation because it is fixed. Indeed, the measure of market price support is based on a difference between a fixed external price (1986–1988 based reference) and an administered price (this applies for the AMS commitments as well as for the Current Total AMS). If the administered price is fixed, the Current Total AMS is not linked to inflation.

However, the assumption of a non-inflation-linked administered price becomes arguable when this price is updated on a regular basis. In this case, the calculation of the Current Total AMS may include an inflation trend. As a result, the Current Total AMS may increase over the years and may breach the AMS commitments (or *de minimis* commitments). In such a case, the AMS commitments which are fixed are eroded by this inflation,⁵ this being perceived as a handicap by countries with a high domestic inflation rate.

Article 18.4 of the URAA does not clearly define criteria on the basis of which a country may be considered to be facing an inflation problem. One solution implemented by several countries was to notify their AMS in a foreign currency, thus offsetting the effect of the divergence between domestic and international inflation rates.⁶ Another solution would be to deflate the Current Total AMS; the problem there would be to define an adequate deflator index.

To cope with the inflation issue a case-by-case approach would be the most practical. For each country complaining that it has a high inflation problem, a careful analysis of the calculation of the AMS notification should determine whether AMS commitments are eroded by the inflation. If the latter is the case, the country could be allowed to choose either to deflate its Current Total AMS or express it in another currency.

3. The "Peace Clause" issue

(a) End of the clause in 2003

The "Peace Clause" is due to expire by the end of 2003. As mentioned in the Introduction, the "Peace Clause" protects exempt reduction payments from retaliation, except where they cause injury to a country. Supports under the Blue and Green Boxes have not given rise to any dispute. The extension or modification of the clause could be an interesting bargaining point in the coming negotiations.

⁴ This is the case for *de minimis* commitments which value the production by multiplying volume of production and market price.

⁵ The same applies for *de minimis* commitments when subsidies are based on price support.

⁶ The same applies for *de minimis* commitments when subsidies are based on price support.

(b) The ceiling mentioned in the "Peace Clause": The amount of subsidies in the 1992 marketing year

During informal discussions held on 13 June 2001, Argentina requested information on cereals support in 1992 by the European Communities. Indeed, it is stated in the "Peace Clause" that due restraint applies for Blue Box support as long as subsidies concerned by this clause do not exceed total support for the same product in the 1992 marketing year. Argentina requested the EU to supply information regarding direct payments to cereals producers currently categorized as Blue Box support. The EU pointed out that a breakdown for individual cereals could not be provided because payments were made on fixed area and yields, and were not cereal-specific. It also argued that it was not required by the URAA to notify the 1992 figures of support.

Table 1 shows price support and direct payments in the EU from the 1992/1993 marketing year onwards, and the regulations linked to these supports.

Table 1
Price support and direct payments for cereals in the EU from 1992

Support price in ECU/t as set in regulation EEC 1802/92 for the campaign 1992/1993			Wheat	Rye	Barley	Maize	Sorghum	Durum wheat
			163.49 ECU/t (+3.27 for bread)	155.33 ECU/t (+4.09 for bread)	155.33 ECU/t	163.49 ECU/t	155.33 ECU/t	220.87 ECU/t
Support price plus direct payment for cereals	As set in 1766/92 and 1765/92 Regulations	1993-1994	117 ECU/t (support price) + 25 ECU/t (direct payment)					
		1994-1995	108 ECU/t + 35 ECU/t					
		1995-1996	100 ECU/t + 45 ECU/t					
	As set since 1995/1996 marketing year		119.19 ECU/t + 54.34 ECU/t					
	As set in new Regulations 1253/99 and 1251/99 from 2001/2002 onwards		101.31 EUR/t + 63 EUR/t					

Source: European Communities regulations 1802/92, 1766/92, 1765/92, 1253/99 and 1251/99.

It will to be recalled that 1992 was the year in which the new Common Agricultural Policy (CAP) of the European Union was introduced. It took effect in 1993, and direct payments per hectare to cereals producers were among the measures then adopted. In 1992 the European Union did not have any subsidy for cereals which could have been considered for Blue Box support, but only for cereal-specific market price support.

According to the data available, it is almost impossible to draw a conclusion based only on price support in 1992 which is provided by types of cereal (wheat, barley, oats, rapeseed, sunflower seeds, etc.) and on direct payments which are provided by product groups (cereals, oilseeds, beef and veal, etc). In order to solve the problem, the EU could have provided the total support given by product after 1995/1996 and the total support by product in 1992, and not only the total support given by type of products after 1995–1996.

According to table 1, direct payments (classified as Blue Box) increased from 1995 to 2002 and they may have gone through the 1992 ceiling.⁷

Another approach to get a partial view of the problem is to calculate the support by type of products in 1992, which can be directly compared with Blue Box notified support. On the basis of the statistics provided by the OECD, table 2 gives an idea of the total EU subsidies by type of commodities in 1992, compared with those under the Blue Box from 1995 to 1999.

Table 2
Subsidies by commodities in 1992 and from 1995 to 1999 in the European Union
(millions of EUR)

	PSE* in 1992	PSE less OS** in 1992	Blue Box payments				
			1995	1996	1997	1998	1999
Wheat	6 981	6 018					
Coarse grains	7 940	6 844					
Cereals	14 921	12 862	12 672	12 910	11 822	11 637	11 696
Rice	421	363	-	-	40	81	124
Oilseeds	2 995	2 582	2 381	2 439	2 369	2 264	1 318
Beef & veal	14 997	12 927	3 876	3 322	3 081	2 990	2 930
Sheepmeat	4 124	3 555	1 321	1 007	1 171	1 536	1 734
Total	37 458	32 289	20 486	21 521	20 443	20 504	19 792

Source: UNCTAD secretariat calculations based on OECD agricultural statistics and European Union notifications to the WTO.

* The Producer Support Equivalent (PSE) is a concept introduced by the OECD to measure the level of subsidies for farmers. It includes market price support, direct payments, reduction in input costs (subsidies to capital or other inputs), general services and other indirect support; it deducts levies on production and feed adjustments which correspond to internal transfers in the agricultural sector (mainly animal food based on cereals or feedstuffs).

** Other support (OS) corresponds to all supports except direct payments, market price support, and levies on production and feed adjustment.

The concept of the Producer Support Equivalent is different from the boxes used in the URAA. PSE concerns all type of supports granted to agricultural products, while the Blue Box concerns only direct payments. As mentioned in the "Peace Clause", Blue Box payments must be compared with support granted to a specific commodity. In order to eliminate "indirect" support that is not commodity-specific, such as infrastructure support, animal health or pest control, a calculation was made deducting the category "Other Support" (as defined in the breakdown of PSE by the OECD) from the PSE. The figures in the column "PSE less OS in 1992" are estimates of the subsidies granted to specific commodities through market price support, direct payments, input subsidies and levies on production, which in the end are similar to the support granted to commodities. Owing to a lack of available statistics, the comparison was made at the aggregated level of all cereals, and not by cereal types. The same was done for oilseeds.

⁷ Indeed, even if price support was high in 1992, it was applied to the quantity of crops (e.g. wheat) bought by intervention organisms. Instead, from 1993 onwards, direct payments are quite low compared with this price, but they apply to the whole production of wheat.

When the results for cereals in 1996 and in 1992 are compared, it appears in table 2 that some cereals may have received more support with the Blue Box than in 1992, thus breaking the "Peace Clause" and allowing actions against the Blue Box (such as retaliation). The same may be argued for oilseeds in 1996, when the Blue Box support level was very close to the "PSE less OS in 1992" level, which could indicate that a specific oilseed may have received more support with the Blue Box in 1996 than in 1992.

It is, however, practically impossible to draw any definite conclusion with respect to the EU compliance with the "Peace Clause" provisions.

The "Peace Clause" is unique in all trade agreements under the WTO aegis. The expiration of the clause will at least put agricultural domestic support on the same legal ground as other WTO rules on subsidies. It will also allow greater transparency regarding the use of the different boxes, especially concerning the classification of support measures under one box or another.

If the "Peace Clause" is extended, it can then be argued that a clear control mechanism should be designed. Member States should notify the base support level by commodity (i.e. the 1992 support for the current URAA), as well as a breakdown of support by commodity during the use of Blue Box support. Another addition to the "Peace Clause" could be made regarding the Green Box subsidies, which are currently not subject to any control. The introduction of a mechanism that would entitle member States to take retaliatory measures when the Green Box support is higher than a defined limit could be considered. Green Box subsidies have reached an extraordinarily high level and, in the case of domestic food aid, can be commodity-specific.

B. The products subsidized by the Blue Box

1. European Communities

The European Communities have notified Blue Box subsidies of two types: "payments based on fixed area and yields" and "livestock payments made on a fixed number of head".

Three main sectors are covered by these payments: arable crops, bovine cattle, and sheep and goats. Direct payments started with the reform of the Common Agricultural Policy in 1992, implemented in 1993 (except for bovine cattle, where payments per head already existed). The new reform was clearly oriented towards reducing price support and introducing "compensatory payments".⁸

Agenda 2000, agreed in 1999, confirmed the shift from market price support to direct payments and introduced the concept of multifunctionality. This concept justifies direct payments by stating that farmers' roles other than agricultural production are not remunerated by the market, but are important to society. Thus direct payments from public sources are

⁸ "Compensatory payments" are direct payments to producers introduced by the European Union in order to compensate producers for the reduction of intervention prices.

used to remunerate farmers for these roles: sustainable development, protection of the environment, sustained vitality of rural areas and poverty alleviation. The implementation of Agenda 2000 is also intended to better control and reduce, or at least maintain at the current level, agricultural supports and their cost to the EU budget. In terms of WTO rules, EC are shifting support from AMS to exempt-from-reduction boxes, on the basis of the argument that these forms of support are less trade-distorting

SHEEP AND GOATS

Compensatory payments for ewes and goats are limited per producer in accordance with reference numbers (the ewe and goat premium is based on the number of heads of the previous year and the animals must be kept on the farm at least 100 days after the last day for notification).

Before 1992, a price support regime with institutional interventions was in place. This policy was changed in 1992, following the CAP reform the same year, to a deficiency payment (or compensatory payments owing to the elimination of intervention) calculated as the difference between a forecast-based price for the coming year and the actual market price. This support was nevertheless considered to be Blue Box because of the limited number of animals benefiting from it. A new change appeared in 2001 (effective since January 2002) in order to end the price support regime and improve farmers' sensitivity to market signals. It also means that the domestic support for ewes and goats would be less trade-distorting than the former measures.

From 2002 onwards, the compensatory payments are a fixed premium (21 EUR per head) and an additional rural-areas premium of 7 EUR per head (categorized as Green Box) paid directly to farmers.⁹

Table 3
Blue Box payments and price support to sheep and goats in the EU

	Subsidies in million EUR					
	1986-1988	1995	1996	1997	1998	1999
Compensatory payments for ewes and goats	-	1 321	1 007	1 171	1 536	1 734
AMS to sheep: price support	918.3	-	-	-	-	-
Total support (AMS + Blue Box)	918.3	1 321	1 007	1 171	1 536	1 734

Source: European Communities' notifications to the WTO.

Table 3 shows clearly that the Current Total AMS has not included any subsidies since 1995. Nevertheless, the expenditures have substantially increased from the average 1986–1988 owing to the implementation of the new policy of compensatory payments. The producer nominal assistance coefficient (NACp) calculated by the OECD was at 2.44 in 1999

⁹ Council Regulation N°2529/2001 modifying the CMO on sheepmeat and goatmeat.

and decreasing in 2000 and 2001, which means that the value of gross farm receipts for sheep meat is 2.44 times higher than production valued at world market price without subsidies.¹⁰

BOVINE POLICY

The common market organisation (CMO) of beef and veal was modified in 2000 to contain the following elements:

1. A special beef premium which is a fixed premium per animal, twice in its life (at 9 and 21 months or once for bulls). From 2003 onwards, the amount of the premium will remain unchanged – 150 EUR for beef and 210 EUR for bulls – in order to stop the premium inflation and better control the financial aspects of the premium system. A maximum of 90 head of cattle per age bracket and per farm are subject to this special premium.
2. A slaughtering premium is available at the date of slaughtering or when animals are exported to a third country: 27 EUR for adult bovines in 2000, 53 EUR in 2001, 80 EUR from 2002 onwards, 17 EUR for calves in 2000 and 33 EUR in 2001, and 50 EUR from 2002 onwards.
3. A suckler cow premium is paid per animal that will be kept for at least 12 months as a suckler cow: 163 EUR for 2000, 182 EUR for 2001 and 200 EUR for 2002 and the following years.
4. A premium for extensive production is paid in addition to the suckler cow premium or the special beef premium: 66 EUR in 2001 and 80 EUR from 2002 onwards, when the stocking density of animals is less than 1.6 livestock unit per ha, 33 EUR in 2001 and 40 EUR from 2002 onwards, when the stocking density of animals is more than 1.6 LU per ha and less than 2.0 LU per ha.

Compared with the previous CMO rules there are two changes: all the premiums after 2002 or 2003 are fixed and a premium for extensivity has been introduced.

¹⁰ For further explanation about the NACp, refer to "Agricultural policies in OECD countries, monitoring and evaluation", yearly publication of the OECD.

Table 4
Blue Box payments and price support to beef and veal in the EU

	Subsidies in million EUR					
	Base period 1986-1988	1995	1996	1997	1998	1999
Premium on suckler cows, compensating for intervention price reduction	302.6	2 446	2 043	1 695	1 669	1 628
Special premium for beef and veal	110.1	1 407	1 239	1 341	1 297	1 299
Additional premium to deseasonalize slaughtering	-	23	40	45	24	3
<i>Total Blue Box for beef</i>	<i>412.7</i>	<i>3 876</i>	<i>3 322</i>	<i>3 081</i>	<i>2 990</i>	<i>2 930</i>
AMS for beef: price support	18 072	13 962	13 787	13 525	13 375	13 089
AMS for beef: other than price support	413	-	-	-	-	-
Total actual support (Blue Box + AMS)	18 485	17 838	17 109	16 606	16 365	16 019

Source: European Communities' notifications to the WTO.

Total support under Blue and Amber Boxes has decreased since 1986–1988. The introduction of compensatory payments has clearly compensated for the main part of the reduction of price support between the base period and the implementation period. During the implementation period, all types of subsidies have decreased, price support has been reduced by almost 900 million EUR, the premium on suckler cows by 800 million EUR, the special premium by 100 million EUR and the slaughtering premium by 20 million EUR. Nevertheless, Blue and Box Amber Box support to the beef sector amounted to 16 billion EUR in 1999. New policies aim to reduce expenditure further.

ARABLE CROPS

After the revision of the CAP in 1992, arable crops support was mostly based on a reduction of price support, the introduction of compensatory payments to farmers and supply management through set-aside arrangements. Since 1999 and the reform by the common market organisation (CMO) of cereals, the support prices have been further reduced in order to bring European market prices for cereals in line with world market prices: the intervention price has been reduced by 15 per cent (from 119.19 EUR/t in 1999–2000 to 101.31 EUR/t in 2001–2002). The price support system is a safety net for producers in the event of a large price decrease. Nevertheless, the system of monthly increments for the cereal intervention price allows the level of price support to be adjusted within a marketing year in order to compensate for the seasonal price variability in the cereal sector.

Table 5 reports wheat international prices, intervention prices and wheat prices paid to producers at the farm gate. The price paid to producers constantly decreased from 180 EUR/t in 1991 to 114 EUR/t in 2001 and direct payments increased from 25 EUR/t in 1993 to 63 EUR/t in 2001.

Table 5
International prices, intervention prices and compensatory payments to main arable crops in
the EU (in Euro)

Prices or product	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Wheat: Argentina, Trigo Pan, f.o.b. (EUR/t)	81	93	103	108	127	149	134	106	108	130	133
Wheat: United States, No. 2, Hard Red Winter (ordinary), f.o.b. Gulf ports (EUR/t)	104	117	121	127	137	164	142	116	108	130	145
Weighted average price paid to producers for wheat (EUR/t) in the EU ^(d)	180	165	153	140	141	138	130	124	119	119 ^(p)	114 ^(e)
Intervention price as set in European Regulations (EUR/t)	160.13 168.55	160.13 168.55	117 ^(b) 139 ^(d)	108 ^(b) 129 ^(d)	100 ^(b) 119 ^(d)	119 ^(d)	119 ^(d)	119 ^(d)	119 ^(d)	110 ^(f)	101 ^(f)
Direct compensatory payments in EUR/t (to be multiplied by historical yields and by area cultivated to get farmers payment)	-	-	25 ^(c)	35 ^(c)	45 ^(c)	54	54	54	54	58.67 ^(a)	63 ^(a)

(p): provisional; (e): estimate.

Source: UNCTAD estimates from various sources: "FAO database"; "Agricultural policies, markets and trade: monitoring and outlook", OECD, 1993,1994,1995; "Agricultural policies in OECD countries: monitoring and evaluation", OECD, 1996, 1997, 1998, 1999, 2000, 2001, 2002; "The Agricultural Outlook", OECD, 1995, 1997, 1998, 1999, 2000, 2002; (a) compensatory payments as set in Regulation EEC 1251/1999; (b) intervention prices as set in Regulation EEC 1766/1992; (c) compensatory payments as set in Regulation EEC 1765/1992; (d) intervention prices as published by OECD in "The Agricultural Outlook trends to 2000", and in "OECD Agricultural Outlook" 1995-2000, 1997-2001, 1998-2003, 1999-2004, 2000-2005 and 2002-2007 issues; (f) intervention prices as set in regulation EEC 1253/1999

It should be noted that except in 1995, 1996, 1997, 2000 and 2001, intervention prices were above international prices. The years 1995 to 1997 were the most rewarding for European farmers, who received both high prices and compensatory payments.

Direct aid increased from 54 EUR per tonne in 1995 to 63 EUR per tonne in 2001. Direct payments to producers are calculated as the compensatory aid in EUR/t multiplied by a historical regional yield and again multiplied by the surface cultivated with cereals. The basis for the historical yield is established by region and product, based on the average of three reference years out of the five between 1986/1987 and 1990/1991 (excluding the highest and lowest yields). The surface is calculated as the average of 1989, 1990 and 1991 areas cultivated with all crops. The total area cultivated per cereal crop must not exceed a maximum set per region. This maximum is the average of the area for the years 1989, 1990 and 1991. If the total area of one cereal is more important in one region than the maximum authorized, a reduction in subsidy shall apply the following year in this particular region.

In order to benefit from these subsidies, farmers are required to set aside part of their land, which surface cannot be used to produce any plant for human or animal consumption. Nevertheless, any product produced can be sold if its value, after processing, exceeds the value of human or animal products (crops etc.) that may have been grown on this land. This

is the case for products such as motor fuel, packaging products or natural gums. The compulsory area set-aside varies from year to year, as shown in table 6.

Table 6
Compulsory area to be set aside and set-aside payment from 1995 to 2001

	1995	1996	1997	1998	1999	2000	2001
Compulsory set-aside rate %	12	10	5	5	10	10	10
Set aside payment = wheat direct payment EUR/t	54	54	54	54	54	58.67	63

Source: EC regulations 1765/92 and 1251/99.

From 2000 to 2006, the area set aside is 10 per cent of the area cultivated. Farms applying for less than the area necessary to produce 92 tons of cereals based on the reference regional yield are not subject to set-aside requirements.

Agricultural policies in the cereals sector are quite complex. Table 7 reflects the sum of all types of support for cereals as notified to the WTO.

Table 7
Blue Box payments and price support to cereals in the EU

		Subsidies in million EUR					
		1986-1988	1995	1996	1997	1998	1999
Blue Box payments	Compensatory payments to producers of maize ^a	-	973	1 223	1 213	1 182	1 159
	Compensatory payments to producers of cereals (except maize) ^a	-	8 639	10 001	9 555	9 372	8 842
	Supplements to compensatory payments for durum wheat producers ^a	-	948	1 081	1 016	993	1 006
	Compensatory payments to producers of rice	-	-	-	40.5	81.3	124.3
	Payments for set-aside area, equivalent in value to the aid per hectare for cereals ^a	-	2 112.1	1 827.8	1 251.3	1 272.3	1 848
Total Blue Box for cereals		-	12 672.1	14 132.8	13 075.8	12 900.6	12 979.3
AMS for maize, wheat, rye, barley, oats, triticale, rice and sorghum: price support		20 263	6 426.4	7 410.7	7 489.4	7 552.7	7 189
AMS other than price support		264	30.6	33	26	20.8	15.7
Total support (Blue Box + AMS)		20 527	19 129.1	21 576.5	20 591.2	20 474.1	20 184

a): All payments indicated are calculated on a per hectare of cereal cultivated basis. The compensatory payment is given in EUR per ton. Each producer claims for a surface cultivated with cereal in hectares. This surface is multiplied by a historical reference yield, specific per region, and by the compensatory aid, to obtain the subsidy given to the producer.

Source: European Communities notifications to the WTO and "Domestic support, background paper by the WTO Secretariat", WTO, 20 March 2002, TN/AG/S/4.

Total support has stayed equal from 1986–1988 to 1999, despite the fact that the system has changed from price support to a mix of direct payments and price support. The table shows a clear shift from price support to direct payments from 1986–1988 to the

implementation period. There is no reduction in price support, or in Blue Box support from 1995 onwards. On the contrary, 1996 shows an increase of more than 2 billion EUR compared with 1995, and the subsidies in 1999 were still more than 1 billion EUR higher than in 1995. The difference is due both to direct payments (an increase of 300 million EUR between 1995 and 1999) and to price support (an increase of 700 million EUR between 1995 and 1999). Moreover, 1999 was the first year to show a decrease in price support. When comparing the level of price support with international prices and intervention prices during the same period (see table 5 above), it is difficult to understand that in 1996, when wheat prices paid to producers were high owing to high international prices, the level of direct payments was the highest of the five years. A possible explanation could be the result of the reduction of the compulsory set-aside area from 12 to 10 per cent, and the increase in area under cereals at the expense of other crops owing to favourable international prices. The EU compensatory payments scheme has no limit mechanism in the event of favourable price movement for farmers, as was the case with the price support scheme, which did not enter into function when international prices were higher than the intervention prices. It may thus be questioned whether this scheme does not represent an additional incentive to produce in the event of favourable prices.

Cereals represent the main agricultural product in the European Union, and thus the main chapter of expenditures in the CAP with more than 20 billion EUR per year.

Oleaginous and protein crops have never received price support but direct payments based on a price gap between a target price and a guide price in 1986–1988. The reform of the CAP in 1992 changed this price gap into a direct payment based on regional historical area and yields (see table 8).

Table 8
Blue Box payments and price support to oleaginous and other protein crops in the EU

		Subsidies in million EUR					
		Base period 1986-1988	1995	1996	1997	1998	1999
Blue Box payments	Per hectare compensatory payments for producers of soya beans, colza seed and sunflower seed, based on regional base areas	-	2 381	2 439.4	2 368.6	2 263.7	1 318
	Per hectare compensatory payments for producers of peas, beans, field beans and sweet lupines, based on regional base areas	-	522.7	525	617.8	647.2	524.30
	Per hectare compensatory payments for producers of non-textile flax seed, based on regional base areas	-	72.4	96.5	129.2	165.5	306.60
Total Blue Box for oleaginous and protein crops		-	3 426.1	3 060.9	3 115.6	3 076.4	2 148.9
AMS for rapeseed, sunflower seed, soya beans, flax seed, peas, beans and other protein crops: price support		-	-	-	-	-	-
AMS other than price support		4 309.8	68.8	70.8	70.4	70.5	68.8
Total actual support (Blue Box + AMS)		4 310	3 045	3 132	3 186	3 147	2 218

Source: Countries' notifications to WTO and "Domestic support, background paper by the WTO Secretariat", 20 March 2002, TN/AG/S/4.

Since the base period, aids to oleaginous and protein crops decreased to reach the lowest level ever in 1999. The policy change in 1992 had the effect of partially decoupling support from production.

2. Iceland

In Iceland, only sheep meat received direct aid classified as Blue Box. In 1995, the aid consisted of payments based on 85 per cent or less of the base level of production, which is the base period 1986–1988. In 1996, Iceland reclassified this subsidy as a Green Box decoupled payment under paragraph (d) "Decoupled income support" of Annex 2 of the URAA. The new programme of support was different from the previous one because payments were no longer linked to production. The level of support under the Green Box programme on sheep from 1996 to 2000 was similar to the one under the Blue Box in 1995.

Table 9
Blue Box payments and price support per product in Iceland

	Subsidies in million ISK						
	Base period 1986-1988	1995	1996	1997	1998	1999	2000
Direct payments to farmers for production within individually allocated quotas of sheep	-	1 455	0	0	0	0	0
AMS for sheep (wool) (direct subsidies)	-	247	207	275	243	249	296
AMS for sheepmeat (price support)	2 389	2 233	1 762	1 756	2 192	2 014	2 178
Total actual support (Blue Box + AMS)	2 389	3 936	1 969	2 031	2 435	2 263	2 474

Source: calculations based on country's notifications to the WTO.

Total level of support has fluctuated between ISK 2 billions and ISK 2.5 billions, except in 1995, when support reached almost ISK 4 billions. After the end of the use of the Blue Box, half has divided total support. Actually, the reduction is due to the change of the Blue Box support to a Green Box support, which in terms of total subsidies perceived by the producers remained the same.

3. Japan

Japan has supported the rice sector with Blue Box direct payments since 1998. At that time, price support was abandoned and two measures were implemented. The first was intended to compensate farmers for income loss and the second to smooth the transition from a price support system to direct payments.

The Rice Farming Income Stabilisation Programme (JRIS) was introduced to compensate producers' income losses due to low market prices. The support is limited to a maximum volume of 85 per cent of the base level of production. Payments are based on the gap between the market price and the standard price (average market price of the preceding three years).

The transitional programme was a one-year scheme of direct payments to farmers who participated in the JRIS or a production-limiting programme in 1997. The amount paid was

80 per cent of the price difference between 1994-1996 voluntarily marketed rice and 1995-1997 voluntarily marketed rice (i.e. the compensation given by the JRIS in 1998). The Government's share was 50 per cent of the amount paid to producers, while the rest was paid by the producers' organization.

Table 10
Blue Box payments and price support per product in Japan

		Subsidies in billion yen					
		Base period 1986-1988	1995	1996	1997	1998	1999
Blue Box payments	Rice Farming Income Stabilisation Programme (JRIS): direct payments for rice producers under production-limiting programme	-	-	-	-	9.6	92.7
	Transitional programme of the New Rice Policies: direct payments for rice producers under production-limiting programme	-	-	-	-	40.6	-
AMS support for rice (price support accounts for 97%)		2 967	2 661	2 557	2 397	0	0
Total		2 967	2 661	2 557	2 397	50	93

Source: calculations based on country's notifications to the WTO.

The two measures notified as Blue Box started in 1998 and only the JRIS continued. The administered price disappeared at the end of 1998, thus reducing total support to rice by a factor of more than 20. Nevertheless, as already described, direct payments are still linked to the market price. Moreover, domestic prices are still very high compared with international ones, which gives a certain protection to farmers. The domestic price is maintained at a high level through the use of import tariffs.

On the other hand, since there is no direct intervention on prices, the JRIS is less trade-distorting than the earlier market price support. Farmers are more exposed to market forces and may shift production to something other than rice if prices and direct payments (linked to prices) evolve negatively.

4. Norway

The orientation of the agricultural policies of Norway has not changed in recent years. Measures existing before 1995 were classified in the different categories designed by the URAA. Direct payments play a very important role. The Acreage and Cultural Landscape scheme applies to all acreage under agricultural production: wheat, barley, oats, potatoes, vegetables, fruits and berries, and grassland. These payments are made based on the area cultivated and vary from regions.

The Structural Income Support to Dairy Farmers is a form of direct payments from several different schemes. For farmers, these payments come on top of the revenue from sales and deficiency payments.

Table 11
Blue Box payments and price support per product in Norway

		Subsidies in million NOK						
		Base period 1986-1988	1995	1996	1997	1998	1999	2000
Blue Box payments	Acreage and Cultural Landscape Scheme	1 045	2 751	3 209	3 305	3 752	3 176	3 123
	Structural Income Support to Dairy Farmers	1 611	1 539	1 483	1 443	1 425	1 394	1 330
	Regional Deficiency Payment to Milk Production	555	450	432	434	433	450	428
	Regional Deficiency Payment to Meat Production (beef, veal and sheep).	484	506	512	516	523	512	473
	Headage support	1 576	1 871	1 611	1 678	1 748	2 142	2 317
Total Blue Box		5 271	7 117	7 247	7 376	7 881	7 674	7 671
AMS for milk (price support accounts for more than 85 %)		2 735	3 244	3 732	3 667	3 785	3 707	3 833
AMS for beef, veal and sheep (price support accounts for more than 70%)		2 335	2 733	2 785	2 912	2 923	2 953	2 692
Total actual support (Blue Box + AMS)		10 341	13 094	13 763	13 954	14 589	14 334	14 195

Source: calculations based on country's notifications to the WTO.

The regional deficiency payments to milk and meat production are "made on 85% or less of the base level of production". The headage support programme replaced the former man-year support to livestock farmers in 1995. Headage payments decrease with the number of animals up to a certain limit, below which no payments are made.

It is noticeable that from 1986-1988 to 2000, the support through the Amber and Blue Boxes increased from NOK 10 billion to NOK 14 billion. Approximately one quarter of the support goes to the Acreage and Cultural Landscape Scheme alone.

5. Slovak Republic

The Slovak Republic uses only one measure under the Blue Box: a direct payment for set-aside areas which is not product-specific and applies to all cultivated areas.

6. Slovenia

Measures notified as Blue Box were introduced by Slovenia in 2000. According to the notifications,¹¹ they are direct payments for cereals, hops, bulls, oxen, cows, mares and heifers to compensate for market price decreases. Only wheat was subsidized with a price support mechanism until 1999. Then, it was replaced by direct payments under the Blue Box.

The AMS of Slovenia is mainly composed of direct payments such as production premiums.

¹¹ Notification to the WTO of 14 September 2001, G/AG/N/SVN/19.

Table 12
Blue Box payments and price support per product in Slovenia

		Subsidies in thousand EUR							
		Base period 1992-1993	1995	1996	1997	1998	1999	2000	2001
Blue Box payments	Others cereals	-	-	-	-	-	-	9 000	12 151
	Hops plants	-	-	-	-	-	-	1 060	226
	Cereals used for bread	-	-	-	-	-	-	8 174	10 224
	Bulls and steers	-	-	-	-	-	-	751	1 727
	Mares	-	-	-	-	-	-	383	162
	Cows	-	-	-	-	-	-	5 199	6 595
	Heifer	-	-	-	-	-	-	-	25
AMS for wheat, maize and hops + cereals for bread from 2000		23 054 (with 94% for wheat MPS)	26 910 (91%)	26 754 (93%)	24 165 (86%)	23 644 (82%)	16 305 (32%)	647	1 468
AMS for beef + cattle, dairy cows and bulls from 2000		8 034	11 750	8 167	7 017	7 437	6 626	12 720	992
Total actual support (Blue Box + AMS)		31 088	38 660	34 921	31 182	31 081	22 931	29 834	33 570

Source: calculations based on country's notifications to the WTO.

Market price support of wheat accounted for the major part of the support before it was turned into direct payments under the Blue Box. Nevertheless, the end of the market price support system did not have a significant impact on the total level of subsidies for the products mentioned in the table. The total support is around the level of 1996–1997. At the time of the introduction of Blue Box support, the AMS for the group of cereals substantially decreased from 16,305 thousand EUR in 1999 to 647 thousand in 2000 and 1,468 thousand in 2001. The same happened between 2000 and 2001 with the introduction of Blue Box support for heifers and a reduction of AMS support to cattle from 12,720 thousand EUR in 2000 to 992 thousand EUR in 2001. The introduction of Blue Box support explains the fact that although the AMS has decreased, total expenditures are still at the same level.

7. United States

Prior to 1996, deficiency payments to some cereals were classified as Blue Box measures. The amount of payments was based on the difference between a pre-set target price and the world price. Payments were made to farmers participating in the Acreage Reduction Program (ARP), which was intended to control supply.

Table 13
Blue Box payments and price support per product in the United States

		Subsidies in million US\$					
		Base period 1986-1988	1995	1996	1997	1998	1999
Blue Box payments	Barley	222	151	-	-	-	-
	Corn	4 737	320	-	-	-	-
	Cotton	1 123	901	-	-	-	-
	Oats	17	12	-	-	-	-
	Rice	530	511	-	-	-	-
	Sorghum	459	151	-	-	-	-
	Wheat	2 618	2 127	-	-	-	-
Total Blue Box payments		9 706	4 173	-	-	-	
AMS notified for barley, corn, cotton, oats, rice, sorghum and wheat		16 554	82	47	664	3 171	6 540
Total actual support (Blue Box + AMS)		16 554	4 254	47	664	3 171	6 540

Source: calculations based on country's notifications to the WTO.

In 1996, with the implementation of the 1996 Federal Agriculture Improvement and Reform (FAIR) Act, deficiency payments for cereals were replaced by a predetermined support based on historical areas and yields. The new programme, called the production flexibility contract (PFC), was classified as Green Box under decoupled income support. Farmers had to enter into a seven-year (1996–2002) production flexibility contract for the acreage previously under the ARP in order to benefit from the programme. They had to comply with conservation requirements but did not necessarily have to produce. The payment was independent of market prices and production. In 1996 and 1997, most of the agricultural domestic support of the United States was Green Box support. Owing to unfavourable market developments, an emergency programme was introduced in order to compensate for market losses in 1998. The Loan Deficiency Payments (LDPs) and Market Loss Assistance payments (MLA) were classified as Amber Box, which explains the sudden increase in the AMS for 1998. The total support of the United States as calculated here does not include Green Box support, which amounted to US\$ 5,186 million in 1996, US\$ 6,286 million in 1997 and US\$ 5,659 million in 1998 for the PFC payments.

C. Blue Box support: Distorting measures?

A crucial point in favour of the type of support that is allowed under the Blue Box is that it is claimed to be less trade-distorting than market price support. This justifies the fact that payments made under production-limiting programmes are exempt from reduction while market price support is not.

The Policy Evaluation Matrix (PEM) model is an econometric model developed by the OECD secretariat to estimate the impacts of agricultural support measures on production, trade, world prices and efficiency of income transfer.¹² The model is based on crop (wheat, coarse grain and oilseeds) policy in a few countries (United States, European Union, Canada,

¹² The results are published in "Market Effects of Crop Support Measures", OECD, 2001, and in "Preliminary Findings from PEM Pilot studies of Crop Policy in the EU, the US, Canada and Mexico", OECD, March 2000, (COM/AGR/CA/TD/TC(99)117/FINAL).

Mexico, Japan and Switzerland). PEM work is underway for decoupling measures, including Green Box support and the criteria of "not or at most minimal trade-distorting" for this type of measure.

Analytical results are confirmed by empirical results and allow some conclusions on the impacts of different measures.

Five main measures are compared: payments based on variable inputs, payments based on output of all crops, market price support, payments based on area of all crops and payments based on historical entitlement.

A trade ratio is calculated and used as an indicator of trade distortion. The trade ratio is the ratio between the trade impact¹³ of each category of support and the trade impact of market price support. For instance, payments on area show a trade ratio between 0.08 and 0.37, which means that this measure is 60 to 90 per cent less trade-distorting than market price support. Results¹⁴ are:

Input subsidies	[1.18 to 1.71, average 1.34]
Output support of all crops	[0.91 to 1.53, average 1.53]
Payments based on area of all crops	[0.08 to 0.37, average 0.18]
Payments based on historical entitlement	[0.03 to 0.12, average 0.06]

In addition, a farm income ratio has been calculated like the trade ratio, which is used as an indicator of income transfer efficiency. Results are:

Input subsidies	[0.08 to 1.26, average 0.84]
Output support of all crops	[1.00 to 1.73, average 1.34]
Payments based on area of all crops	[1.39 to 2.79, average 2.12]
Payments based on historical entitlement	[1.42 to 2.96, average 2.24]

The results allow the ranking of the different measures from the most trade-distorting to the less trade-distorting and from the more farm income transfer efficient to the less farm income transfer efficient (see table 14).

¹³ In the PEM crop model, the trade impact is measured by a simulated impact of a 5 per cent increase in payments based on the different support categories (output, input, area, historical entitlement and market price).

¹⁴ Results are extracted from "Market Effects of Crop Support Measures", OECD, 2001. Several qualifications apply to the model. According to their authors: "Results come from simulation analysis comparing the effect of small, equal changes in the amount of support from the different policy measures. [...] they may not provide the basis for conclusions about the effects of large changes in support levels." Moreover, "the analysis focused exclusively on how support measures initially affect prices and thereby quantities demanded and supplied of crops and of inputs used in crop production, ignoring some other channels [...like] risk, wealth and expectations effects of policies". Lastly, the survey was only conducted on crop support in six countries.

Table 14
Ranking of trade-distorting and income transfer efficiency measures

	Trade distortion	Farm income transfer efficiency	
Most distortive	Payment based on input use	Payment on historical entitlement	More efficient
	Market price support	Payment based on area	
	Payment based on output	Payment based on output	
	Payment based on area	Market price support	
	Payment on historical entitlement	Payment based on input use	
Less distortive			Less efficient

The model can also be used to evaluate the impact on world market price. Results are similar to the ones for trade distortion. This analysis would appear to support countries changing their agricultural support policies from market support to decoupled payments. Nevertheless, the argument that Blue Box measures are not trade-distorting because they do not lead to increases in production is not validated by the results of this study (see footnote 14).

In the event that direct payments under the Blue Box are less trade-distorting than market price support, they are still trade-distorting. Moreover, the size of expenditures involved in Blue Box measures is another factor that plays an important role for the degree of trade distortion. In 1999, Blue Box support accounted for from between 2.6 per cent and more than 20 per cent of total national domestic subsidies to agriculture.

II. THE BLUE BOX AND THE OTHER MEASURES

A. Blue Box, Green Box, AMS and *de minimis*

In this chapter the amounts under Blue Box measures and those under the Green Box, the Amber Box (or Total Current AMS) and *de minimis* rules are compared. Annex I provides a series of graphs for each country that uses or has used Blue Box measures. The graphs represent the amounts spent under each category mentioned above and the share of each category among the total.

The European Communities have reduced their total support over the years. EC's graph in Annex I shows the evolution of the different measures. The distribution among categories remains almost equal: the Blue Box accounts for between 17.5 and 18.3 per cent of the total, the Green Box for between 15.8 and 18.3 per cent, the Amber Box for between 63.2 and 66 per cent and *de minimis* for between 0.3 and 0.7 per cent. This is in line with the consistency of the EC policies regarding the shift of support from price support to direct payments.

Iceland notified in Icelandic kronur and in Special Drawing Rights of the IMF in order to reduce the eroding effect of inflation on its AMS commitments. Inflation is a real problem for Iceland since it prevents the country from progressively reducing its support in nominal terms (but not in real terms), and complying with its AMS ceiling for the year 1998. Iceland used the Blue Box once in 1995. Since 1996, the Green Box has almost doubled, absorbing the amount spent under the Blue Box. Green Box and Current Total AMS stayed roughly the same at 23 per cent and 78 per cent respectively from 1996 to 2000, except in 1998. Iceland has not used *de minimis* rules.

Japan saw a major change in its support policies in 1998 since total support was notably reduced, mainly owing to the fall of Current Total AMS. Since that year the Blue Box has been used and has accounted for less than 3 per cent of total support. Although the amounts under the green box are in the same range as before 1998, they have accounted for more than 75 per cent of the total since 1998, while they accounted for less than 48 per cent before that year. The *de minimis* rules have accounted for the same proportion of total support, between 0.5 per cent and 1.6 per cent.

Norway has used the three boxes from 1995 to 2000, but not the *de minimis* rules. The total amount of support has increased over the years in nominal terms and the distribution of support among the boxes has remained unchanged through the years. The Blue Box accounts for around 34 per cent of total support, the Green Box for between 17 and 22 per cent and the Amber Box between 45 and 49 per cent. The stability of the figures reflects the stability of the agricultural domestic support policies.

From 1995 to 2000, the Slovak Republic's domestic support was mainly classified as Amber Box. A recent trend from 1998 onwards shows a new type of measure categorized in the Green Box accounting for 30 per cent of total support in 2000. It is clear from the notifications of the Slovak Republic that new support measures have been included in the Green Box. Nevertheless, the figure for 2000 is explained by payments made due to drought. Blue Box payments represent less than 1 per cent of total support, Green Box payments rose

from 0.4 per cent in 1995 to 9 per cent in 1999 and 30.1 per cent in 2000, and Current Total AMS represented more than 90 per cent except in 2000, when it declined to almost 70 per cent.

Total support in Slovenia rose from 134.5 million EUR in 1995 to 208 million EUR in 2001 and at the same time the distribution of payments has changed radically. In 1995 the Green Box and the Amber Box accounted for almost the same amount of payments. The following years saw an increase in Green Box support and a decrease – to a lesser extent – in Amber Box support. The year 2000 saw the first payments under Blue Box support, while in 2001 Current Total AMS reached a low and Green Box support a high. Payments under the Amber Box started at almost 52 per cent of total payments in 1995 and decreased to 32 per cent in 1999 and 7 per cent in 2001. Payments under the Green Box evolved in the opposite direction, from 48 per cent in 1995 to 78 per cent in 2001. In the year 2000, the agricultural policies of Slovenia changed. AMS support was reduced and direct payments under the Blue Box but also under the Green Box were introduced. It is difficult to know whether one fully compensated the other; nevertheless, Slovenia claimed that these direct payments were intended to compensate for reduced prices.

Notifications to WTO by the United States are from 1995 to 1999. The Blue Box was notified only in 1995, when the deficiency payments were changed and notified under the Green Box as a decoupled income support. Total support grew from US\$ 61 billion in 1995 to US\$ 74 billion in 1999. Changes appeared mainly in 1998 and continued in 1999. The distribution of support shows that Green Box payments have remained stable, but Total Current AMS has more than doubled and in 1999 *de minimis* rules accounted for nine times as much as in 1997.

B. If the Blue Box measures were included into Current Total AMS

1. Graphical results

According to the spirit of the URAA and the Doha Mandate, domestic support should be further reduced. One possible measure could be to integrate support under Blue Box in the reduction commitments. The graphs in Annex II present the total of Amber Box and Blue Box payments compared with AMS commitments in each country's WTO Schedule. They also show the share of Current Total AMS and Blue Box measures in AMS commitments.

It may be argued that if Blue Box subsidies were to be included in the Amber Box, the base AMS 1986-1988 should be revised in order to take into account such support. Actually, all direct payments which existed in 1986–1988 and were later classified as Blue Box were already included in the base AMS. This applies to all Blue Box measures of Norway and the United States and the beef and veal payments of the European Union. Iceland, Japan, Slovenia and the Slovak Republic did not have support (or had no payments) eligible for the Blue Box in 1986–1988. These payments were introduced after 1986-1988 and were therefore not taken into account in the base AMS calculation.

The sum of Blue Box payments and Current Total AMS for the European Communities stays inside AMS commitments by a margin of 10 per cent of the commitments in 1995 and 3

per cent in 1999. According to EU declarations,¹⁵ it is not surprising that the sum of Amber Box and Blue Box measures does not break the ceiling of AMS. Indeed, Blue Box measures were introduced in order to compensate price support reduction. At the same time, this shift was designed by the 1992 reform of the Common Agricultural Policy in order to further reduce European agricultural support. The same applies in the new reform Agenda 2000, in which European support is oriented towards direct payments instead of price support.

Current Total AMS of Norway was close to its AMS commitments. Consequently, adding Blue Box support would have resulted in a breach of the AMS ceiling during the implementation period. In 1995 total AMS accounted for 71 per cent of the commitments, and in 2000 for 90 per cent. Even with stable expenditures, the sum of AMS and Blue Box measures was more than 50 per cent over the ceiling in 1998, 1999 and 2000. Expenditures have remained stable or have slightly decreased while the AMS ceiling has decreased by 20 per cent.

The Slovak Republic has implemented Blue Box support for several years, but the amounts have remained minimal compared with AMS commitments.

Japan implemented Blue Box support in 1999 and 2000. The payments involved are minimal compared with the ceiling of the Amber Box; thus, integrating the Blue Box inside the Current Total AMS would not change the profile of Japan's commitments.

Slovenia implemented Blue Box support in 2000 and 2001 and at the same time reduced its Amber Box. The sum of the Blue Box and the Amber Box in 2000 and 2001 does not even reach the level of Current Total AMS during the previous years.

Iceland and the United States implemented Blue Box support in 1995 only.

Accordingly, if the Blue Box measures had been integrated into the amber box and included in reduction commitments, one country (Norway) could have experienced difficulties in complying with its commitments.

It is likely that the same calculations applied to Green Box supports would lead to different results for the countries where support is more oriented towards the Green Box than the Blue Box.

2. The classification of the measures in the different boxes

When a country is implementing a new agricultural domestic support policy, one of the main questions may be whether the policy will be exempted from reduction or not. In this respect, the classification of support measures plays an essential role. It may be argued that the current process does not control categorization sufficiently and that, for instance, the Green Box criteria should be changed so that unilateral categorization of whether a measure should be exempted or not would be discontinued.

¹⁵ Several papers by the EU mentioned this point; reference may be made to the summary report of the meeting of the Committee on Agriculture in the WTO held on 28 and 29 June 2001 and EEC Regulation 1765/92.

One example is raised in an OECD survey¹⁶ about the classification of premiums of beef and veal by the European Communities. At the time of calculating the 1986–88 base total AMS, those premiums were included, but at the time of implementation, the same premiums were notified as Blue Box support, thus exempt from reduction. The base AMS is therefore higher than "it should have been".

3. The *de minimis* clause and its possibilities

The *de minimis* clause allows countries to exempt some domestic support as long as it does not exceed 5 per cent of the value of production of a product in the case of a product-specific subsidy, or 5 per cent of the total value of agricultural production in the case of a non-product-specific subsidy. The figure is 10 per cent for developing countries.

One aspect concerns the type of subsidy. Indeed, under the *de minimis* clause no distinction is made between very distorting support and less or not trade-distorting support. The clause could therefore protect highly distorting measures such as input subsidies from reduction.

Another aspect concerns the ceiling level of subsidies. The *de minimis* clause is considered to be a tolerance for support since it is limited to 5 per cent of the value of production of the subsidized good. When talking about developing countries, it is obvious that even 10 per cent of their production value is not world-trade-distorting. However, 5 per cent of the total agricultural production value of the United States or the European Union was no less than US\$ 9,528 million and 12,416 million EUR respectively in 2000.¹⁷ These figures could be compared, for instance, with the value of world trade for wheat – US\$ 14,159 million – or beef and veal animals and meat US\$ 14,023 million.¹⁸

Combining these two aspects, one could imagine highly trade-distorting support being classified as non-product-specific and then exempted from any reduction. Moreover, the *de minimis* clause is not subject to inflation erosion because the ceiling is based on the annual value of agricultural production (thus integrating inflation). It is subject to increase when production does, and subject to reduction when prices fall.

C. Why so few countries have used the Blue Box

Only seven countries have used Blue Box support, and five are still using it, while there are 34 countries with Total AMS reduction commitments and 48 countries that notified Green Box uses in 1995 (33 in 1999 as of notifications received on 20 August 2002).

Several reasons may explain why the Blue Box is not more popular.

¹⁶ Market access, domestic support and export subsidy aspects of Uruguay round agreement on agriculture: implementation in OECD countries, OECD, 21 December 2000, COM/AGR/TD/WP(2000)86/FINAL.

¹⁷ Source: UNCTAD calculation based on value of production at farm gate. Data from Agricultural Policies in OECD countries, Monitoring and Evaluation, OECD, 2002.

¹⁸ Source: UNCTAD calculation based on data from the FAO database on agriculture: <http://apps.fao.org/default.htm>

Measures which qualify for the Blue Box must be direct payments. This means that the expenditures must be publicly funded. Such payments can be burdensome for the budget of a Government. Market price support weighs less heavily on the budget because part of the expenditures come from the consumer (who pays higher prices) and often from import taxes.

Measures must also be "under production-limiting programmes", which clearly indicates that only countries facing a production surplus will be interested in using such programmes. Since those countries are mainly developed countries, the Blue Box appears to developing countries as flexibility in the domestic support commitment given to developed countries.

Blue Box measures are administratively demanding: farmers have to notify their entitlements for aid, this must be processed, checked and then paid. Moreover, such subsidies need verification in order to avoid false notifications. Finally, such rules may be easy to apply in small countries, while in large countries it may be very hard. Few countries can afford the extra expenditures required by the use of Blue Box support compared with those of Total AMS or even Green Box support. Market price support may seem fairer to the farmer because everyone receives the same price, thus reducing the possibility of fraud.

III. SOME PROPOSALS IN THE AGRICULTURAL NEGOTIATIONS

A. The European Communities' proposal

Romano Prodi, President of the European Commission, stated as follows at the World Summit on Sustainable Development in Johannesburg: "We recognise the importance of agriculture for developing countries and we agree that tariff reduction is not enough. Major reductions in trade-distorting domestic support and in all forms of export subsidies are also needed."¹⁹

1. The EU proposal for WTO negotiations on agriculture²⁰

In Mr. Prodi's declaration, and also in the official position of the European Union, it is admitted that trade-distorting measures must be reduced. The difficulty may be in defining which measures are trade-distorting and which are not. According to the results of the OECD PEM model, direct payments are less trade-distorting than market price support. This can be used as an argument to justify the orientation of the EU in reducing market price support, and compensating farmers by direct payment. Since the EU has embarked on this policy, it is obvious that it would agree to negotiate further reduction in domestic support as long as the concept of the Blue and Green Boxes is maintained.²¹

The proposal²² made in mid-December 2002, immediately after the end of the Copenhagen summit, contains two main points concerning agricultural domestic support: the elimination of the *de minimis* clause for developed countries and the reduction over a six-year period by 55 per cent of the Aggregate Measures of Support commitments level of the URAA. The period of implementation of these measures would be six years starting in 2006. At the end of 2011, the AMS would be reduced by 55 per cent. The proposal would maintain the Blue Box and the Green Box, but examine more carefully subsidies claimed as "domestic food aid" under the Green Box. Lastly, the EU proposes to continue the "Peace Clause".

¹⁹ Extract from the statement *The North-South Pact* by Romano Prodi, President of the European Commission, at the Johannesburg Summit on Sustainable Development, 2 September 2002.

²⁰ Based on the conclusions of the Agriculture Council of the European Communities on 20 and 21 November 2000 and on the press release issued on 16 December 2002.

²¹ See *EU agriculture and WTO*, DG Agriculture, European Commission, 10/2001, available online at http://europa.eu.int/comm/agriculture/external/wto/backgrou/index_en.htm, and the EU proposal G/AG/NG/W/17, 28 June 2000.

²² *The EC's proposal for modalities in the WTO agriculture negotiations*, Brussels, European Commission, January 2003.

Table 15
Ceilings and reductions of support in the EU and the United States according to the EU proposal for the WTO negotiations

	AMS ceiling at the end of the URAA	Total AMS in 1999	<i>De minimis</i> level in 1999	AMS ceiling in 2011 (EU proposal: -55% in 6 years)	Minimum effort to be done from 1999 to 2012
EU (billions of EUR)	67.16	47.886	0.308	30.222	17.972
USA (billions of US\$)	19.103	16.862	7.405	8.596	15.671

Source: UNCTAD secretariat calculation based on EU proposal and countries' notifications to WTO.

Note: Figures of Total AMS are from 1999 because they are the latest official ones available from the United States and the European Union.

The proposal of the EU is in line with the Doha mandate: a substantial reduction of trade-distorting subsidies, mainly subsidies under the Amber Box. The removal of the *de minimis* clause can be seen as a response to the proposal of the United States, since this country uses the *de minimis* clause intensively. Nevertheless, even a 55 per cent reduction of the AMS ceiling may not be a substantive effort for reduction of subsidies for the EU owing to factors limiting price intervention on the market for the future, namely:

- A current and forecast tendency of favourable prices for cereals;
- A policy already oriented towards decreasing price support, *inter alia* by setting intervention prices at the lowest possible level in order to avoid intervention on the market, which is expected to reduce the amounts of subsidies classified as Amber Box.

After the end of implementation period of the URAA, the EU has not stopped reducing AMS subsidies. First, Agenda 2000 set new perspectives for European agriculture which remain in line with a shift from price support to direct payments initiated in 1992 CAP reform. It is also meant to better control and also to reduce expenditures in the agriculture sector. Second, at the Berlin Council in March 1999, the European budget was set until 2006. Expenditures had to be stabilized, including agricultural spending, which is limited to 46 per cent of the budget (49 per cent in 1998). Consequently, by 2006 the EU could already comply with its new AMS final limit (which would become due in 2011).

2. The integration of Central and Eastern European countries

The integration of new member countries in the European Union is a considerable challenge, especially in the area of agriculture because of the application of the CAP to acceding countries and the exemption they might enjoy under the Blue Box (product subsidies etc), which could also cause considerable disruption to the EU agricultural sector as a whole.

One of the main points of discussion concerns direct payments. During the Copenhagen summit,²³ the main lines for integration were decided. The 10 new members will benefit from EU subsidies for their agriculture at a progressive rate as far as direct payments are concerned. From 2004 (date of entry), farmers in the new member countries will receive 25 per cent of the full EU rate the first year, 30 per cent the second year and 35 per cent the third year (2006, first year of implementation of the new WTO Agreement on Agriculture). From 2007 the level of payments will increase in order to reach the full EU rate in 2013. Each acceding country can supplement direct payments from national accounts or rural development funds.

The EU will also finance rural development measures at a maximum of 80 per cent of the cost of the measures. Other measures include early retirement of farmers, specific measures for semi-subsistence farms, technical assistance and special aid to meet EU standards. All of these measures would be classified as Green Box.

Regarding URAA aspects, the profile of the subsidies spent on agriculture in Eastern Europe countries will change to a reduced use of Amber Box, a greater use of the Green Box owing to funds allocated to agricultural restructuring, and a greater use of the Blue Box owing to the introduction of direct payments.

The total value of the agricultural package for the 10 newcomers for the period 2004-2006 is set to reach 5.1 billion EUR.

3. The mid-term review of Agenda 2000²⁴

The European Commission proposed new orientations for the agricultural policies of the European Union in July 2002. The proposals are inline with the CAP reform of 1992 and 1999: a further reduction of price level support in order to expose farmers more to market forces, and direct payments to stabilize farmers' income. The intervention system remains in place but the intervention prices are reduced, which should limit the need for intervention to cases of severe international price declines.

A new scheme for direct payments is proposed. Direct aid would be completely decoupled from production and farmers would receive a single payment based on historical payments, on condition that the farm complies with environmental, food safety, animal health and welfare standards (called cross-compliance). The set-aside programme would be maintained and would be incorporated into the single direct payment as a measure complying with environmental objectives. The European Commission could classify such aid as Green Box.

²³ The Copenhagen summit was held on 12 and 13 December 2002, its purpose being to conclude the accession negotiations of 10 new countries: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. See the European press release n° MEMO/02/301 and IP/02/1882: *Enlargement and agriculture: A fair and tailor-made package which benefits farmers in accession countries*, December 2002. Available at <http://europa.eu.int/rapid/start/cgi/guesten.ksh>

²⁴ Information from "Mid-term review of the Common Agricultural Policy", Commission of the European Communities, Brussels, 10 July 2002, COM(2002)394 final.

As already mentioned, keeping the Blue and the Green Box concepts seems to be of vital importance for the future of agricultural policies in the European Communities, because it will allow the EU to meet the objectives of the new reform of the CAP (Agenda 2000) and to integrate Central and Eastern European countries into European agricultural policies.

B. The United States proposal

1. The US proposal for WTO negotiations on agriculture

The US proposal for negotiations can be summarized in five points:

1. To end the Blue Box;
2. To maintain the *de minimis* rules;
3. To maintain the Green Box;
4. To further reduce the current Amber Box ceiling to 5 per cent of the total value of agricultural production over five years (from 2006 to 2011);
5. To promote sectoral initiatives.

The main axis of the proposal is to reduce trade-distorting support. This would be done by abolishing the Blue Box and reducing AMS commitments to a maximum of 5 per cent of the value of agricultural production over a five-year period. In the second phase, the timing of which remains to be determined, all trade-distorting support should disappear. This proposal does not affect trade-distorting measures already in the *de minimis* clause, nor does it affect the Green Box. Table 16 shows the different ceilings and the financial effort that would have to be made by the EU and the United States if they had to comply with the US proposal. As an indication, the amount of Green Box subsidies in food aid and decoupled income support in the two regions is also mentioned.

Table 16
Ceilings and reductions of support in the EU and the United States according to the US proposal for the WTO negotiations

	AMS ceiling in 2000	Total AMS in 1999	Ceiling of 5% of total value of production in 1999	Reduction of AMS to comply with the 5% rule	Reduction of support due to the elimination of the Blue Box	Minimum effort to be made from 1999 to 2011
EU billions of EUR	67.16	47.886	11.685	36.201	19.792	55.993
USA billions of US\$	19.103	16.862	9.237	7.625	0	7.625
	Effort to be made if Green Box decoupled subsidies + food aid were to be removed (from the level of 1999)			Grand total (Effort + GB reductions)		
EU billions of EUR	0.9575 + 0.2778			57.228		
USA billions of US\$	5.471 + 33.050			46.146		

Source: Author calculations based on WTO members' notifications and statistics from OECD, Agricultural policies in OECD countries, monitoring and evaluation 2000.

Note: Latest figures available from the United States and the European union are from 1999.

If the US proposal had been implemented in 1999, the United States would have almost complied with it. Indeed, the 5 per cent level is close to the Current Total AMS, and the United States has no Blue Box Support. The situation for the EU would have been much more complicated. It would have had to reduce support by 56 billion EUR (36.5 billion from AMS to comply with the 5 per cent level and 19.8 billion due to the end of the Blue Box).

A European concern is the Green Box support, which may host some trade-distorting subsidies such as food aid or decoupled income support. If such measures were to be eliminated, the United States would have to reduce support by US\$ 46 billion.

2. The US Farm Bill

The new Farm Bill – the Farm Security and Rural Investment Act 2002 (FSRIA) – was signed into law on 13 May 2002. It covers a six-year period (2002–2007) and replaces the Federal Agriculture Improvement and Reform (FAIR) Act of 1996. It can be seen as a shift in the agricultural policy of the United States that began in 1998. The total budgetary cost of the FSRIA is estimated to be US\$ 190 billion over 10 years, which is US\$ 73.5 billion more than the FAIR Act as it was in 1996.

The 1996 FAIR Act was a reform to stop strong government intervention in agriculture, especially with the end of deficiency payments, which were replaced by direct payments as a decoupled support measure. Owing to the decrease in crop prices, government support increased through essentially two measures: the pre-existing Loan Deficiency Payments (LDPs) and a new Market Loss Assistance payment (MLA) from 1998.

The FSRIA is in line with the latter developments. It reintroduces deficiency payments under the new name of counter-cyclical payments (replacing MLA), and extends Marketing Assistance Loans (and Loan Deficiency Payments) to peanuts, wool, mohair, honey, small chickpeas, lentil and dry peas. It also extends direct payments to soybeans, other oilseeds and peanuts. The dairy sector benefits from a new established National Dairy Market Loss Payment (equivalent to a counter-cyclical payment). Finally, the financial provisions for food aid were increased (a Green Box measure).

In the FAIR Act, direct payments were paid on a fixed 1996 acreage base. Under FSRIA, direct payments and counter-cyclical payments are calculated on an acreage base that can be updated to 2002 (except for oilseeds, where the new acreage base is the last 4-year average of oilseeds plantings). This update possibility could be considered a clear link between payments and level of production. If so, it may not qualify as a decoupled measure.

The risk of out-of-control spending is higher than in the FAIR Act, mainly owing to counter-cyclical payments and loan deficiency payments, which are price-linked measures. If commodity prices fall, these payments will rise. Another critical point regarding the commitment of the United States to its trade obligations is the classification of the newly introduced measures. Firstly, counter-cyclical payments may not be considered "non-product specific", in which case they will be counted under total AMS. Secondly, owing to the update of the acreage base, direct payments may not be considered a decoupled measure and should therefore be excluded from the Green Box.

The FSRIA has been criticized on several grounds. Since 1998, US agricultural support has increased and the new bill confirms this trend. The spirit of the Agreement on Agriculture under the Uruguay Round was to reduce agricultural domestic support over the years. The reduction of the AMS ceilings was implemented in order to set a maximum level of support by countries, but the ceilings do not represent spending targets.

A main concern could be that the example shown by the United States could encourage other food-exporting countries to adjust their agricultural policies accordingly, and thus increase the general level of domestic support.

Finally, one concern is the classification of these new measures. Would they all fit under the Green Box or the *de minimis* clause as claimed by the United States? Since the United States notified its support for 1999 only on 23 December 2002, it may be a few years more before the American position is known.

C. The proposal by Japan²⁵

Japan is one of those countries that accord most support to their agricultural sector. The proposal on domestic support from Japan contains few changes in relation to the URAA.

The Blue Box should be maintained. The multifunctionality of agriculture and its production of public goods should be taken into account. To that end, the requirements to be met in the Green Box concerning "decoupled income support" should be revised in order to allow some link between the amount of payments and the situation of agricultural production. The introduction of safety net programmes for farmers should be eased in the Green Box with appropriate revisions. The level of total AMS commitment should be kept in a range which would allow the current progress of agricultural policy reform to continue. The new base level of the total AMS should be equivalent to the final bound level agreed in the URAA. Thus, the new final bound level would be expressed as a percentage of the former final bound one.

D. The Cairns Group proposal

The Cairns²⁶ Group's negotiating proposal to the WTO was made on behalf of all Cairns Group members except Canada and Fiji.²⁷ It complements a proposal made in 2000, adding some specific inputs in terms of time and level of reduction.

According to the Cairns Group, the Blue Box must disappear and all support must be counted as Amber Box support. This new Amber Box should be reduced by 50 per cent the first year of implementation of the new agreement for developed countries only. Then, the AMS must be reduced to zero over the four following years (nine years in total for

²⁵ The entire text of the proposal on domestic support can be found at the following web address: http://www.maff.go.jp/wto/wto_nihon_teian_e.htm.

²⁶ The Cairns Group and the United States among others. The CAIRNS group comprises Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

²⁷ Canada issued its own proposal.

developing countries). The calculation mode of the AMS should be disaggregated and product-specific. The reduction commitments should be based on the final bound level agreed in the URAA. *De minimis* rules must continue for developing countries, while their levels should be reduced with a view to their elimination within an agreed period. Classification of support should be strengthened, in particular to avoid product-specific measures being categorized as non-product-specific. Green Box measures should be re-evaluated in order to keep only the “not or minimally trade-distorting measures”. A detailed proposal for Annex 2 of the URAA was attached to the proposal.²⁸

Table 17

Ceilings and reductions of support in the EU and the United States according to the Cairns Group proposal for the WTO negotiations

	Blue Box support in 1999	<i>De minimis</i> in 1999	AMS in 1999/ AMS ceiling in 2000	Food aid and decoupled aid of Green Box	Effort to be made the first year of implementation from 1999 level of AMS	Total effort to be made
EU billions of EUR	19.931	0.308	47.886 / 67.16	1.2353	35.6803	69.3
US billions of US\$	0	7.405	16.862/19.103	38.521	53.2355	62.9

Source: Author calculations based on WTO members' notifications and statistics from OECD, Agricultural policies in OECD countries, monitoring and evaluation 2000.

Note: Latest figures available from the United States and the European Union are from 1999.

As can be seen from table 17, the proposal by the Cairns Group would definitely end agricultural subsidies in the EU and the United States. Such large amounts of reduction, especially during the first implementation year, could reduce agricultural production in the European Union and the United States dramatically. Agriculture is a very sensitive issue in European Union and the United States. The representative of the European Communities called the Cairns Group proposal "unrealistic" at a special session meeting under the aegis of the WTO.

The Cairns Group underlined the impossibility for farmers from developing countries to compete with European or North American farmers, with the latter receiving subsidies at present levels. The conclusions of the URAA were disappointing for developing countries, because after six years the global level of subsidies had not decreased, even if their nature had changed.

²⁸ Available at the following website: <http://www.cairnsgroup.org/proposals/index.html>

IV. CONCLUSION

The present method of calculating Current Total AMS and basing commitments on it has limitations, some of which have been highlighted in this paper. A comparison of the AMS and the indicator of total support from the OECD shows that the spread between the two is growing. The AMS has come to represent a decreasing share of total domestic support but support is increasingly classified in exempt reduction categories. This development would appear to be in contrast with the stated initial objective of the URAA, where exempt categories of support were introduced in order to facilitate agricultural political reforms in countries with high levels of domestic support, and not to allow exemption from reduction for newly created measures. The use of the Blue Box and the Green Box clearly shows this tendency. The introduction of the Blue Box was intended to allow countries with a high level of price support to temporarily set the support apart from reduction commitments and reform their agricultural policies. The exemption was allowed for support considered to be less trade-distorting than market price support. The OECD model detailed in this paper, and presented by some countries as a positive argument in favour of the shift of their support from market price support to Blue Box support, cannot, according to the authors, be used to justify large changes of policy, but only to explain results in the case of small changes in payments. Blue Box support may be less trade-distorting than market price support, but the growing use of it may increase trade distortion due to this type of support.

An important problem underlying the negotiations on agriculture is that countries have different views on what type of measures are trade-distorting. For some, such measures only include Amber Box support, while for others they also include Blue Box and some Green Box support. Agreement on this point would facilitate the implementation of commitments. A related point is whether a new agreement should retain the *de minimis* rules for countries having made commitments to reduce support. It could be argued that the *de minimis* rules allow subsidizing countries the possibility of offsetting reduction commitments. In this context, the option of retaining *de minimis* rules only for developing countries, possibly as part of a “development box”, is being considered.

Some countries have proposed that the Blue Box be eliminated. It is important to note that if such a measure is agreed, it would presumably have to be combined with a clarification of the types of support allowed under the Green Box, since otherwise countries may simply move certain forms of support from the Blue Box to the Green Box. This paper has shown that the inclusion of Blue Box support under the AMS during 1995–1999 would have raised a problem of commitments for only one country. If such a solution were to be retained for the coming round, respect for commitments would become more problematic if the AMS reduction were substantial.

The Blue Box has crystallized discussion of the "Peace Clause". The experience of the implementation of the URAA shows that notification procedures have been a weak point. Since countries consistently notify only very late, and since comparisons with base year support are difficult, other WTO members that may wish to challenge a particular measure are put at a considerable disadvantage.

The results of the new round of negotiations will start to be implemented in 2005 or 2006, five to six years after the end of the URAA. Accordingly, the choice of the base period has attracted a great deal of attention, and some WTO members argue that countries using domestic support have had sufficient time to undertake reforms and facilitate adaptation by their producers.

On the eve of new multilateral negotiations on agriculture, the main agricultural domestic support users have already acted as if the existing rules were to be applied in the future and they do not appear to expect any change. Indeed, the new agricultural policies of the United States and the European Union have been designed to fit into the present URAA rules. It should be noted that they are both in favour of widening the Green Box criteria, thus, it could be argued, allowing them to transfer measures under AMS to exempt reduction boxes.

Since there is disagreement on several points, including the existence of the Blue Box, between the main negotiating groups, there would appear to be room for negotiations and possible trade-offs. Table 18 summarizes some of the contentious points.

Table 18
Measures that could be modified and WTO members' positions

Measures that could be modified	Arguments for or against change	Members' positions
Reducing the current level of AMS	For: The core of the Doha Ministerial declaration: reduction should be continued.	Views differ on the level of reduction. The EU wants 55%, the United States wants 5% of production value, and the Cairns Group wants a rapid phase-out.
To change the AMS calculation method from a global approach to a product specific approach	- For: A product-specific approach would reduce support for individual products. - Against: It would reduce flexibility for countries using domestic support.	- Cairns Group favourable, others not. - Developing countries would prefer a specific-commodity approach, since they are usually single commodity exporters.
Eliminate Blue Box	- For: The Blue Box is seen as trade-distorting by some countries; developing countries see it as providing too much flexibility. - Against: Countries using it argue that it allows policy reforms.	- EU and Japan are opposed, arguing that the Blue Box is less or not trade-distorting. - US and Cairns in favour. - A clearer concept of trade-distorting measures, defined as measures which have impacts on world price, and general market access conditions, could serve as a basis for a decision on whether to retain the Blue Box.
Tighten Green Box criteria	For: Current definition of GB does not allow an objective assessment of measures declared as GB. Some measures under GB are seen as trade-distorting.	- EU, US and Japan opposed, want enlargement of criteria to include new measures on multifunctionality, animal welfare, etc. - The end of the "Peace Clause" should mean a more transparent measures classification, because unilateral decisions could be challenged by countries that do not agree.

Measures that could be modified	Arguments for or against change	Members' positions
Eliminate <i>de minimis</i> clause	- For: Some measures under the <i>de minimis</i> are similar to AMS support. - Against: The clause is needed by countries without AMS commitments (especially developing countries)	- US against. - EU and Cairns in favour. - Developing countries are keen to maintain it if it is allowed for developing countries only (included in a development box).
Continue the "Peace Clause"	Against: The clause provides the sole exemption to the Agreement on Subsidies.	EU proposal
Special and Differential treatment	Most of the countries agree to give developing countries more flexibility: keeping the <i>de minimis</i>, AMS cut over a longer period, AMS cut less important, etc.	- Most nations are in favour of S&D treatment and of the creation of a separate box for developing countries allowing them to exclude some support from reduction: - to encourage diversification from illicit narcotic crops; - to improve credit schemes; - to improve marketing; - to comply with quality, sanitary and phytosanitary regulations.

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- Japan: G/AG/N/JPN/21, G/AG/N/JPN/34, G/AG/N/JPN/47, G/AG/N/JPN/61, G/AG/N/JPN/72.
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Annexes

Annex I

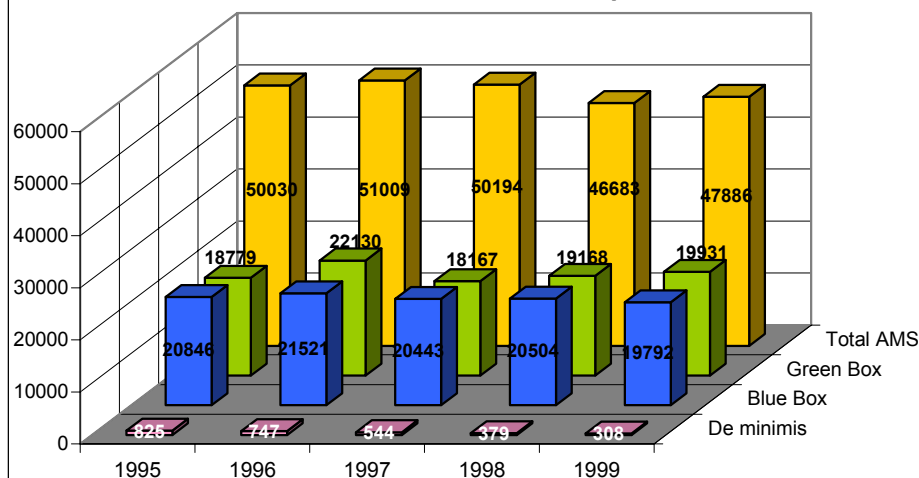
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European Communities (million EUR)

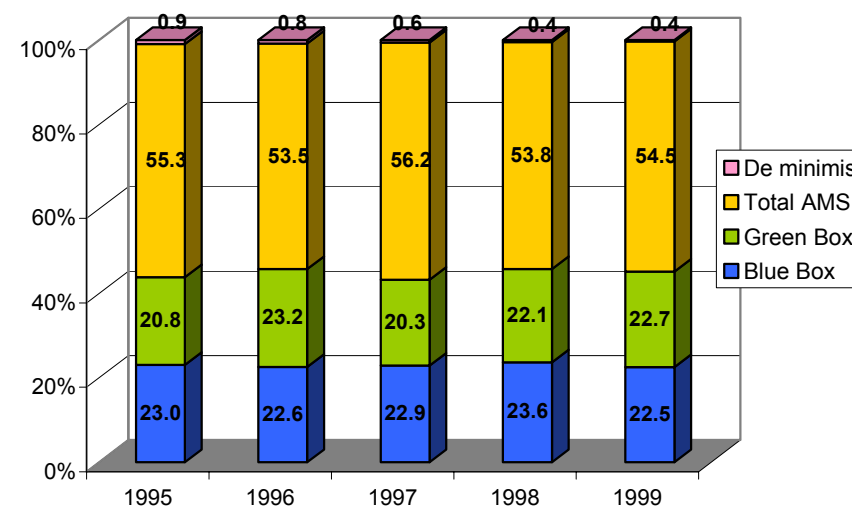
	1995	1996	1997	1998	1999
Blue Box	20846	21521	20443	20504	19792
Green Box	18779	22130	18167	19168	19931
Total AMS	50030	51009	50194	46683	47886
<i>De minimis</i>	825	747	544	379	308
Total	90480.01	95407.4	89347.8	86733.4	87916.5

	1995	1996	1997	1998	1999
Blue Box	23.0	22.6	22.9	23.6	22.5
Green Box	20.8	23.2	20.3	22.1	22.7
Total AMS	55.3	53.5	56.2	53.8	54.5
<i>De minimis</i>	0.9	0.8	0.6	0.4	0.4

Expenditures of domestic supports as classified under the different boxes in the European Union



Shares of domestic supports along the different boxes in the European Union



Annex I

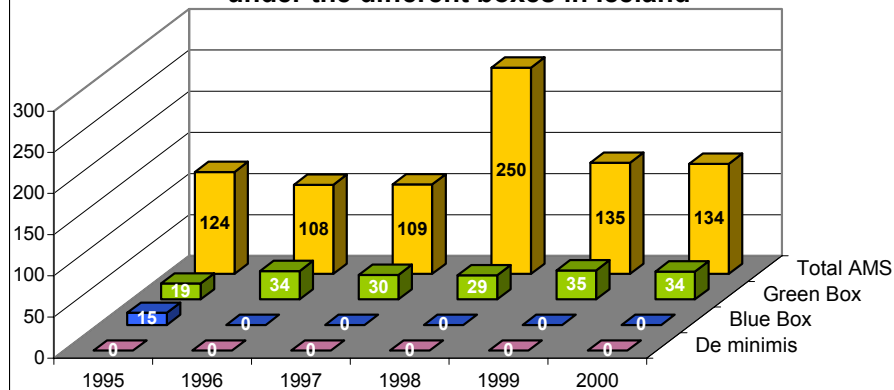
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

Iceland (million SDR)

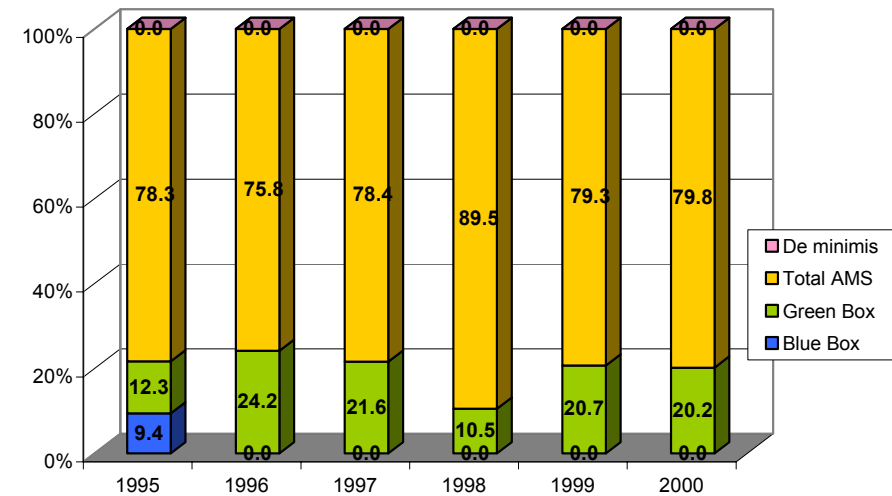
	1995	1996	1997	1998	1999	2000
Blue Box	15	0	0	0	0	0
Green Box	19	34	30	29	35	34
Total AMS	124	108	109	250	135	134
<i>De minimis</i>	0	0	0	0	0	0
Total	158	143	138	280	170	168

	1995	1996	1997	1998	1999	2000
Blue Box	9.4	0.0	0.0	0.0	0.0	0.0
Green Box	12.3	24.2	21.6	10.5	20.7	20.2
Total AMS	78.3	75.8	78.4	89.5	79.3	79.8
<i>De minimis</i>	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100

Expenditures of domestic supports as classified under the different boxes in Iceland



Shares of domestic supports along the different boxes in Iceland



Annex I

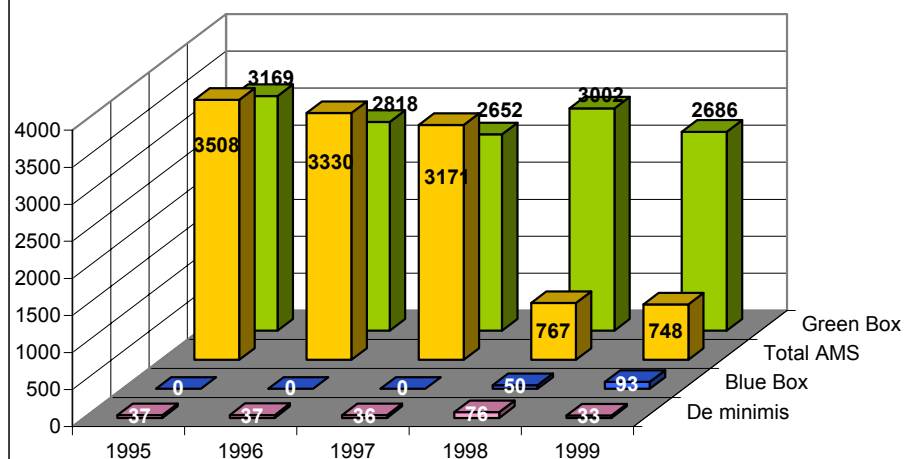
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

Japan (Billion JPY)

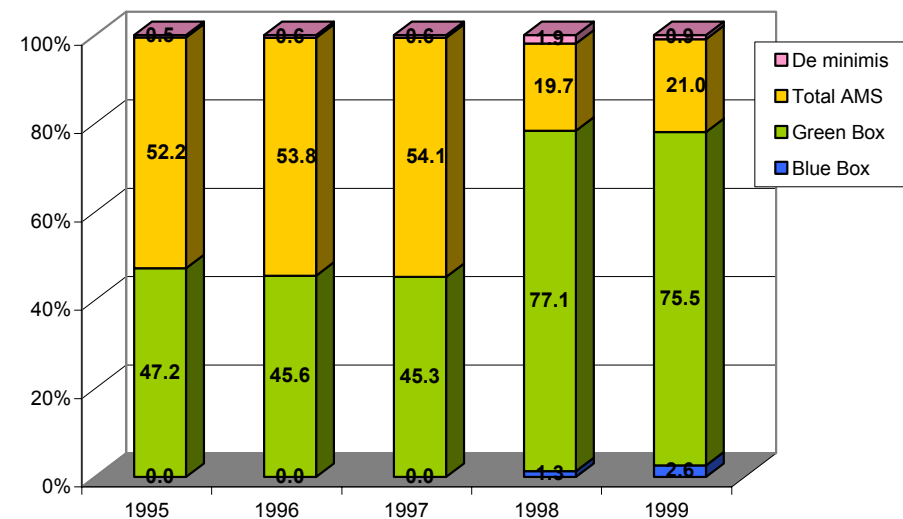
	1995	1996	1997	1998	1999
Blue Box	0	0	0	50	93
Green Box	3169	2818	2652	3002	2686
Total AMS	3508	3330	3171	767	748
<i>De minimis</i>	37	37	36	76	33
Total	6713.1	6185.005	5858.905	3894.206	3559.106

	1995	1996	1997	1998	1999
Blue Box	0.0	0.0	0.0	1.3	2.6
Green Box	47.2	45.6	45.3	77.1	75.5
Total AMS	52.2	53.8	54.1	19.7	21.0
<i>De minimis</i>	0.5	0.6	0.6	1.9	0.9
Total	100	100	100	100	100

Expenditures of domestic supports as classified under the different boxes in Japan



Shares of domestic supports along the different boxes in Japan



Annex I

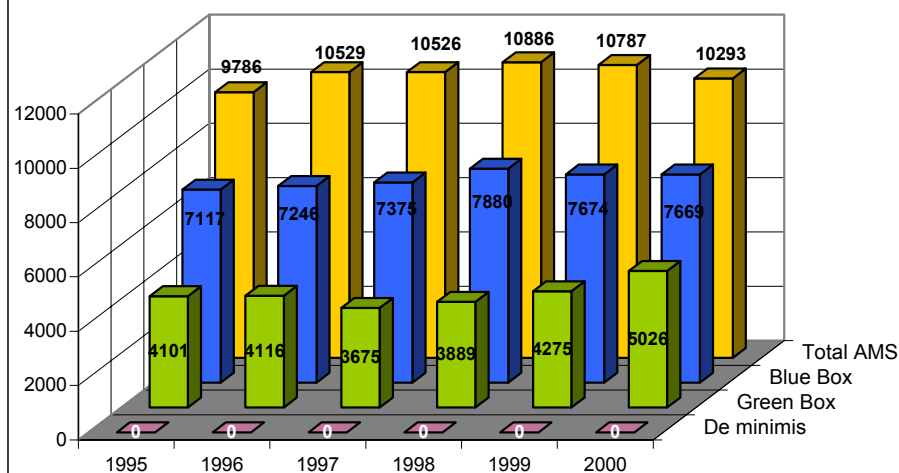
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

Norway (Million NOK)

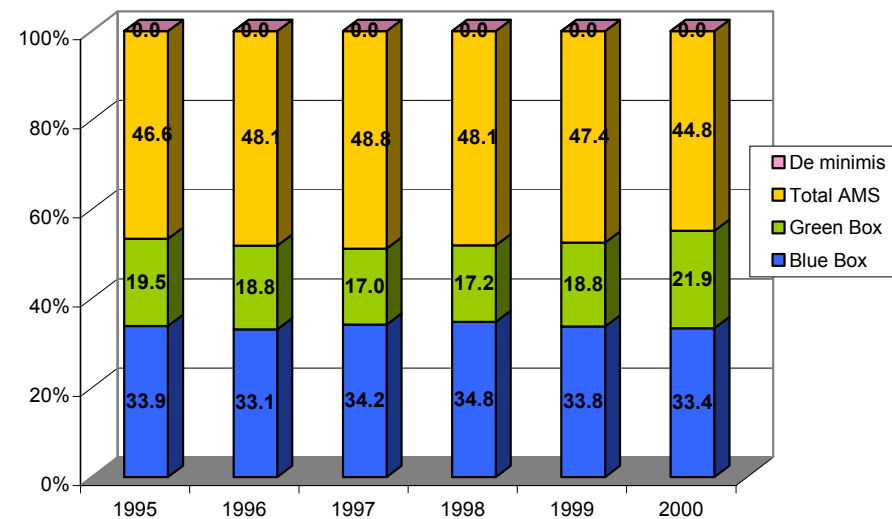
	1995	1996	1997	1998	1999	2000
Blue Box	7117	7246	7375	7880	7674	7669
Green Box	4101	4116	3675	3889	4275	5026
Total AMS	9786	10529	10526	10886	10787	10293
<i>De minimis</i>	0	0	0	0	0	0
Total	21004.4	21891.4	21575.6	22655.3	22735.9	22988.5

	1995	1996	1997	1998	1999	2000
Blue Box	33.9	33.1	34.2	34.8	33.8	33.4
Green Box	19.5	18.8	17.0	17.2	18.8	21.9
Total AMS	46.6	48.1	48.8	48.1	47.4	44.8
<i>De minimis</i>	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100

Expenditures of domestic supports as classified under the different boxes in Norway



Shares of domestic supports along the different boxes in Norway



Annex I

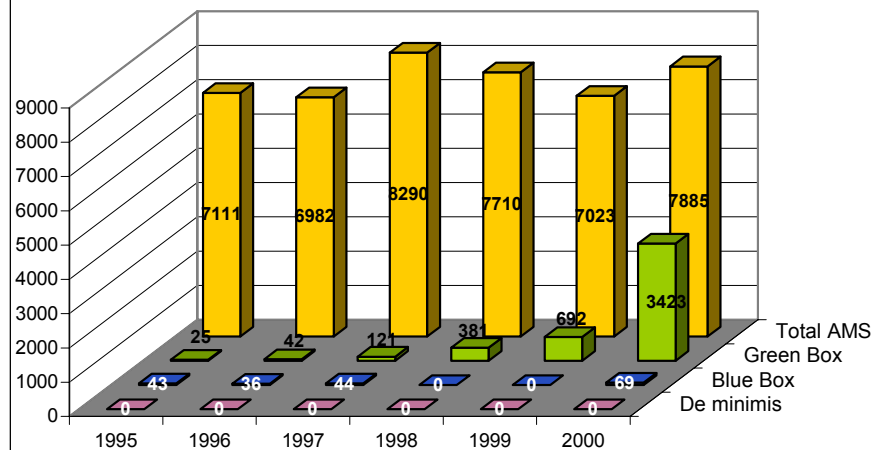
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

Slovak Republic (Million SKK)

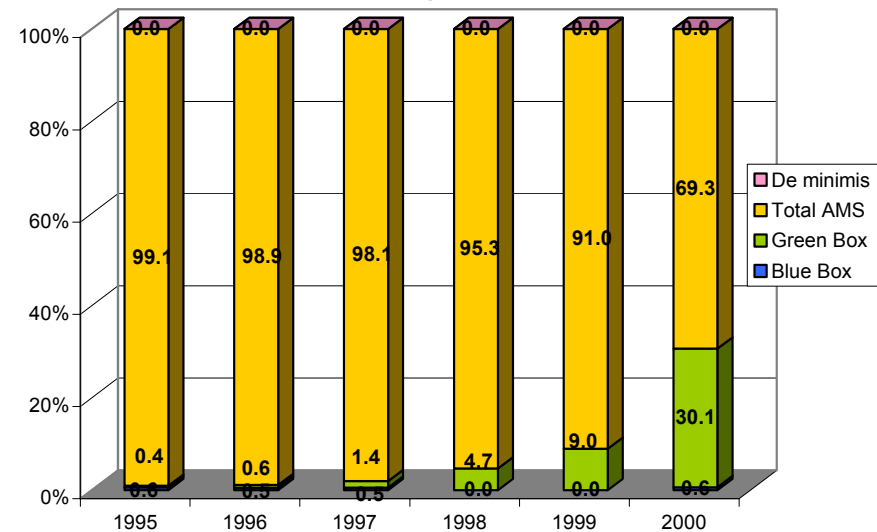
	1995	1996	1997	1998	1999	2000
Blue Box	43	36	44	0	0	69
Green Box	25	42	121	381	692	3423
Total AMS	7111	6982	8290	7710	7023	7885
<i>De minimis</i>	0	0	0	0	0	0
Total	7178.213	7060.1	8454.6	8091	7715	11377

	1995	1996	1997	1998	1999	2000
Blue Box	0.6	0.5	0.5	0.0	0.0	0.6
Green Box	0.4	0.6	1.4	4.7	9.0	30.1
Total AMS	99.1	98.9	98.1	95.3	91.0	69.3
<i>De minimis</i>	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100

Expenditures of domestic supports as classified under the different boxes in the Slovak Republic



Shares of domestic supports along the different boxes in the Slovak Republic



Annex I

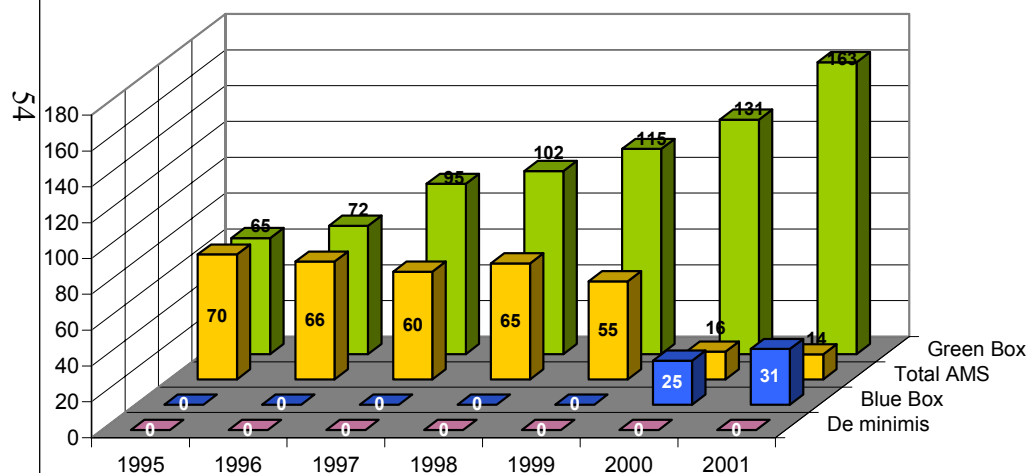
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

Slovenia (Million EUR)

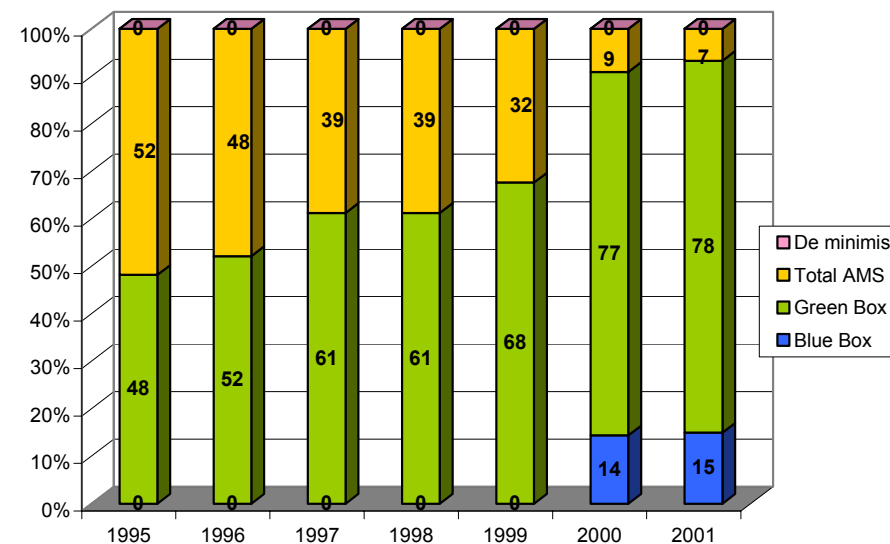
	1995	1996	1997	1998	1999	2000	2001
Blue Box	0	0	0	0	0	25	31
Green Box	65	72	95	102	115	131	163
Total AMS	70	66	60	65	55	16	14
<i>De minimis</i>	0	0	0	0	0	0	0
Total	134.56343	137.3839	155.2636	166.9248	169.3606	170.9889	208.0497

	1995	1996	1997	1998	1999	2000	2001
Blue Box	0	0	0	0	0	14	15
Green Box	48	52	61	61	68	77	78
Total AMS	52	48	39	39	32	9	7
<i>De minimis</i>	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100.0

Expenditures of domestic supports as classified under the different boxes in Slovenia



Shares of domestic supports along the different boxes in Slovenia



Annex I

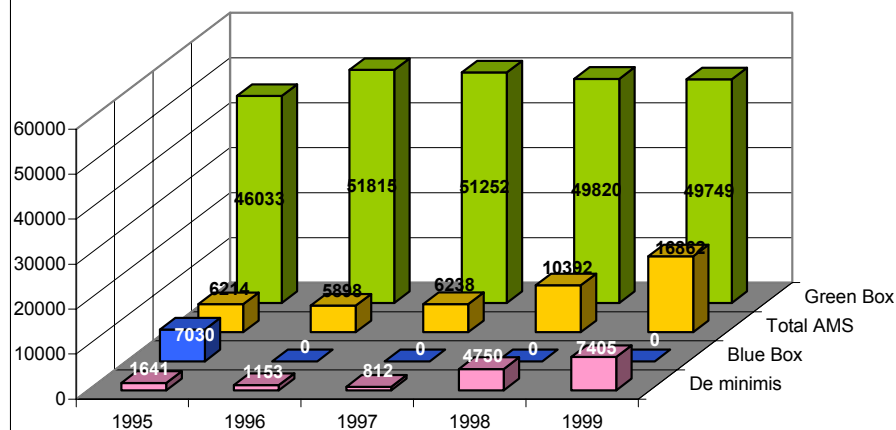
Figures and graphs of the different agricultural support measures for the European Union, Iceland, Japan, Norway, Slovenia, the Slovak Republic and the United States

United States (Million USD)

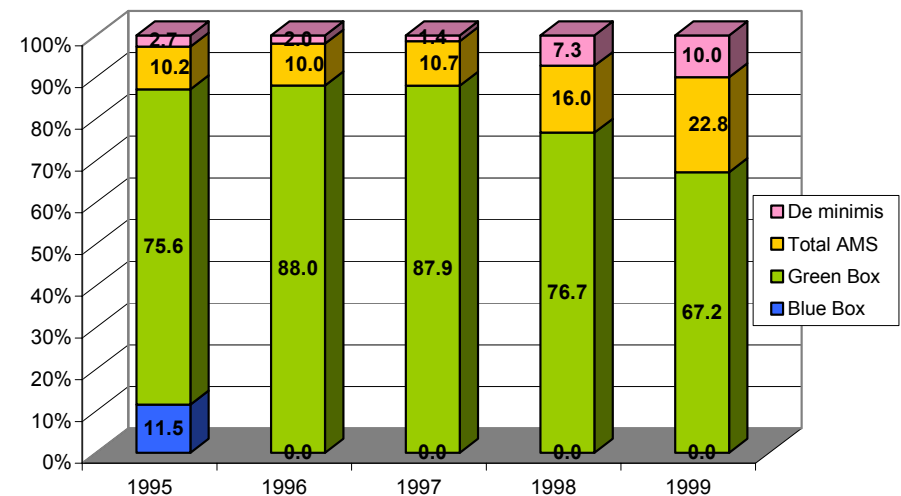
	1995	1996	1997	1998	1999
Blue Box	7030	0	0	0	0
Green Box	46033	51815	51252	49820	49749
Total AMS	6214	5898	6238	10392	16862
<i>De minimis</i>	1641	1153	812	4750	7405
Total	60918.08	58865.86	58302	64961.6	74016

	1995	1996	1997	1998	1999
Blue Box	11.5	0.0	0.0	0.0	0.0
Green Box	75.6	88.0	87.9	76.7	67.2
Total AMS	10.2	10.0	10.7	16.0	22.8
<i>De minimis</i>	2.7	2.0	1.4	7.3	10.0
Total	100	100	100	100	100

Expenditures of domestic supports as classified under the different boxes in the United States



Shares of domestic supports along the different boxes in the United States

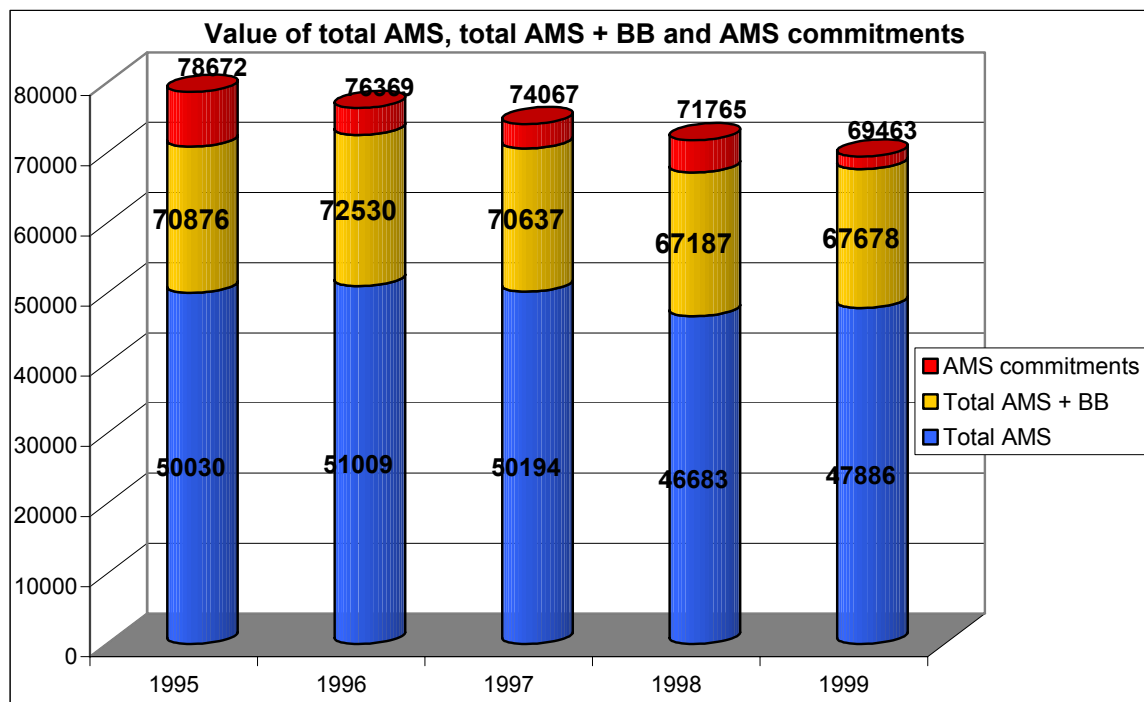


Annex II

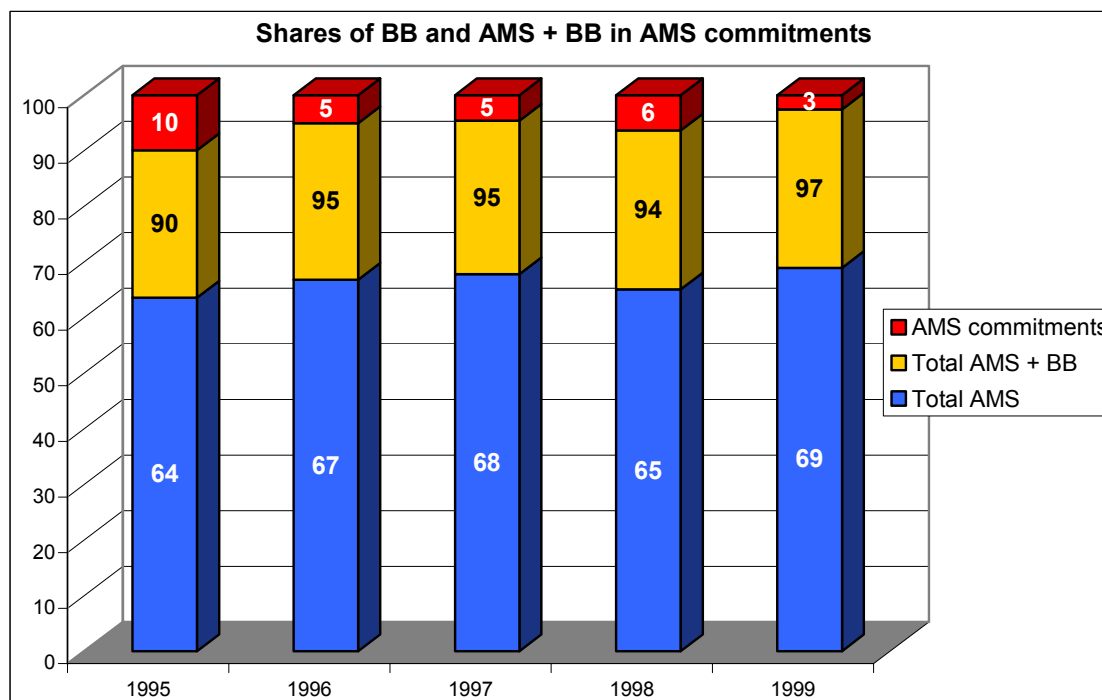
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

EUROPEAN COMMUNITIES

	1995	1996	1997	1998	1999
AMS commitments	78672	76369	74067	71765	69463
Total AMS + BB	70876	72530	70637	67187	67678
Total AMS	50030	51009	50194	46683	47886



	1995	1996	1997	1998	1999
AMS commitments	100	100	100	100	100
Total AMS + BB	90	95	95	94	97
Total AMS	64	67	68	65	69

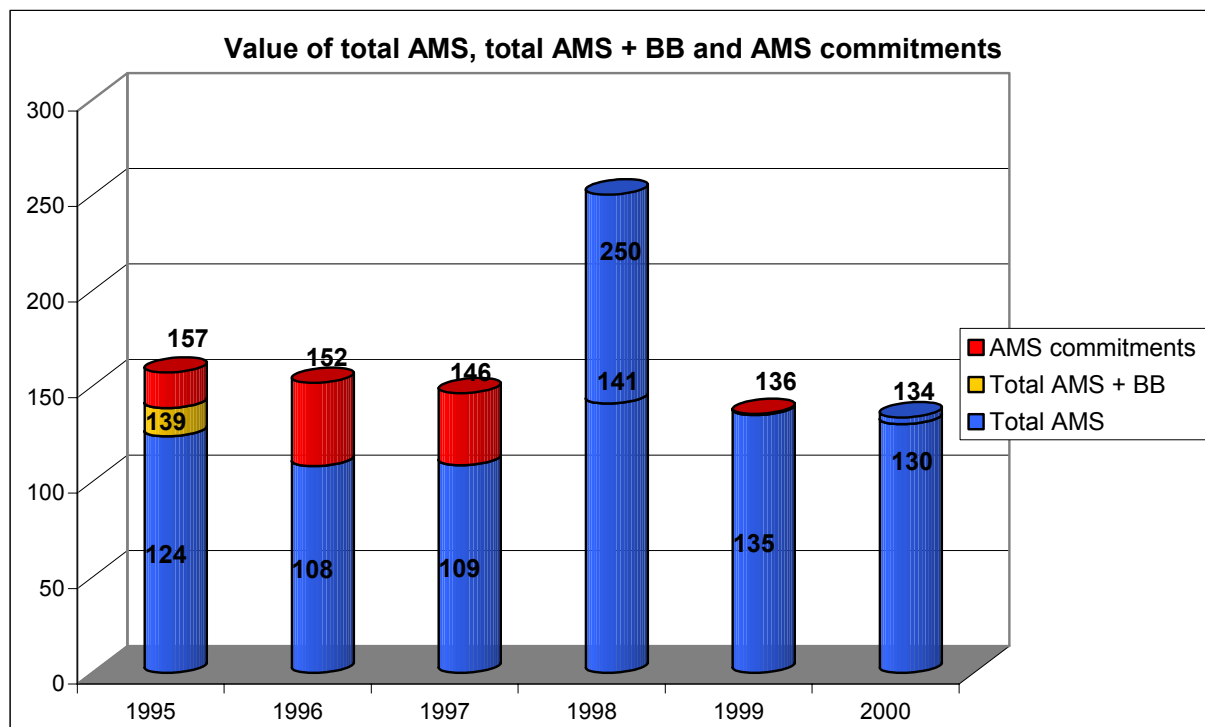


Annex II

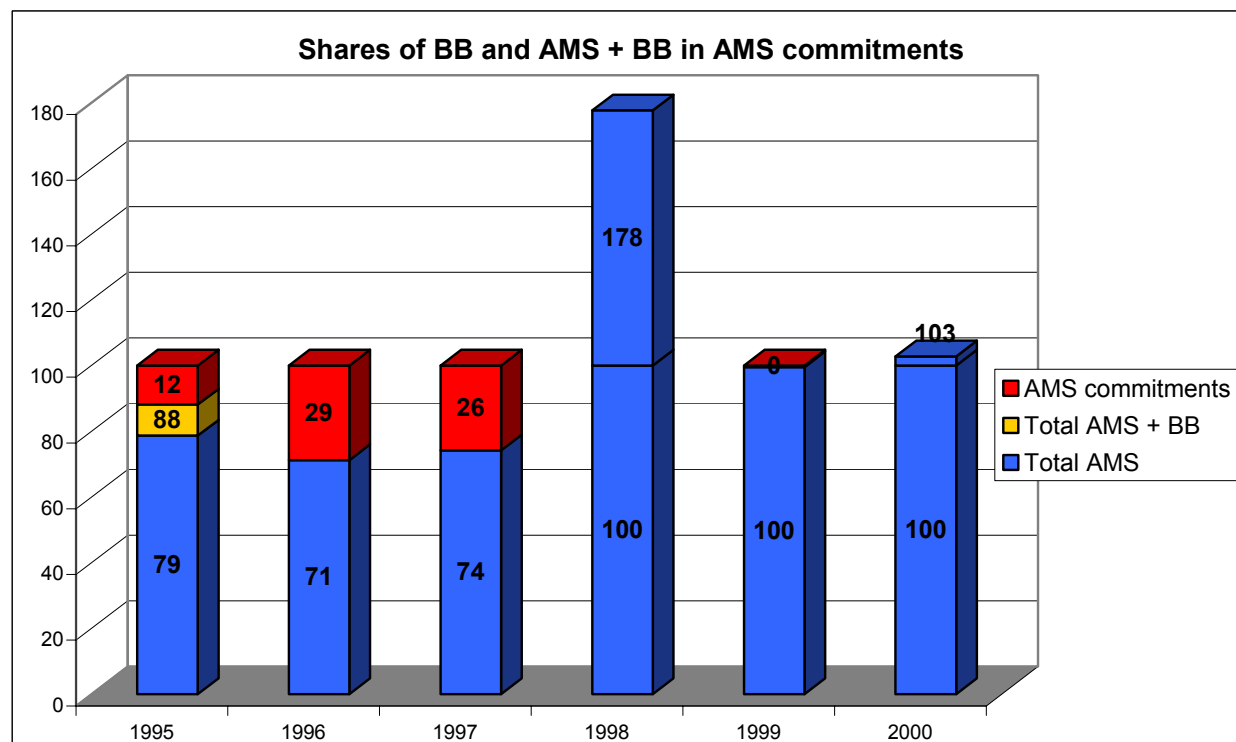
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

ICELAND

	1995	1996	1997	1998	1999	2000
AMS commitments	157	152	146	141	136	130
Total AMS + BB	139	108	109	250	135	134
Total AMS	124	108	109	250	135	134



	1995	1996	1997	1998	1999	2000
AMS commitments	100	100	26	78	100	100
Total AMS + BB	91	71	74	178	100	103
Total AMS	79	71	74	178	100	103

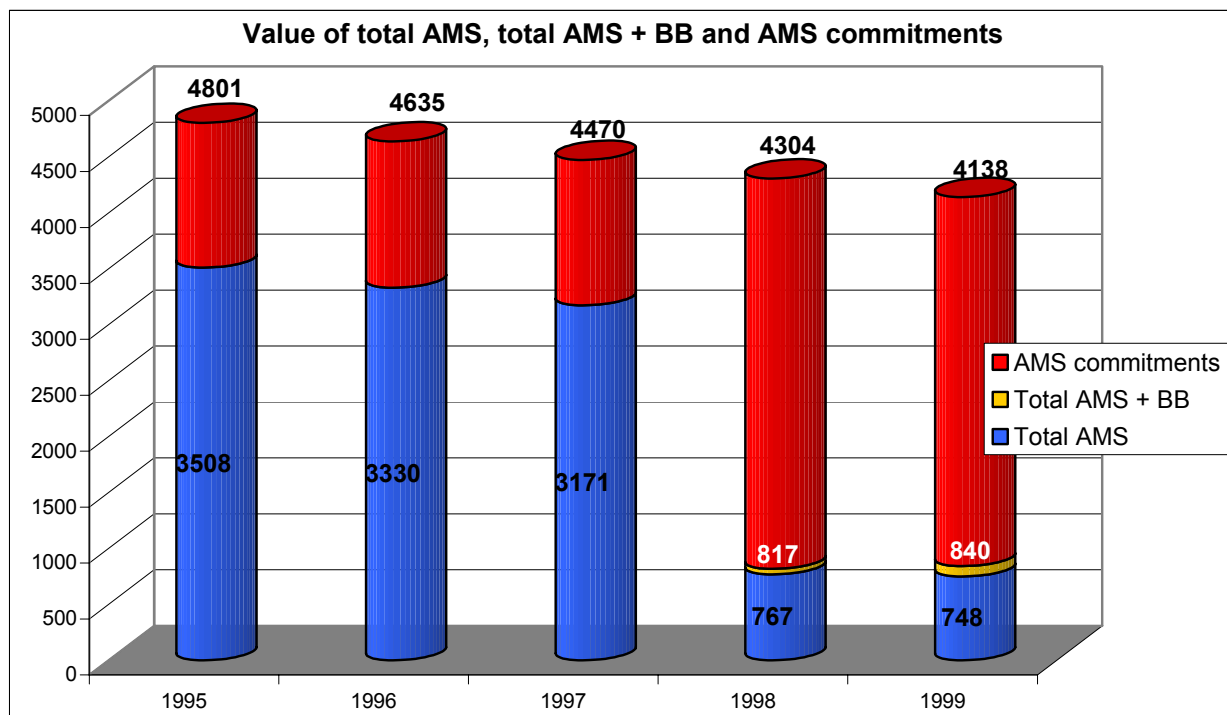


Annex II

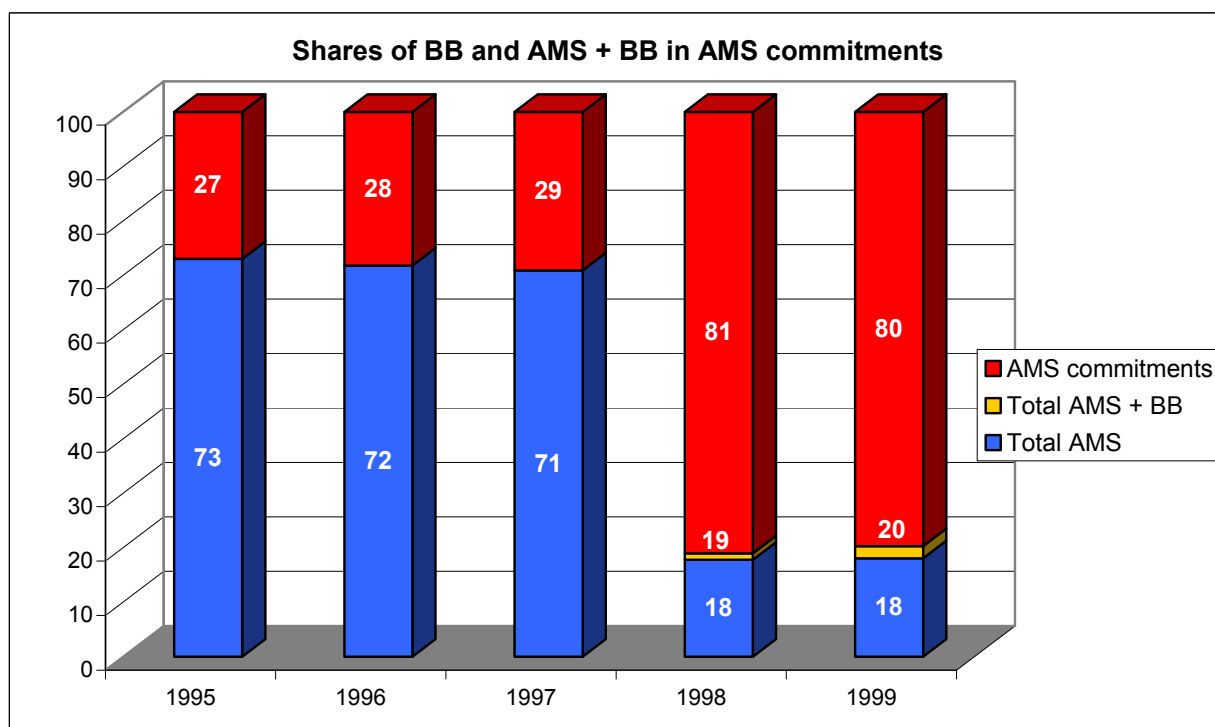
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

JAPAN

	1995	1996	1997	1998	1999
AMS commitments	1293	1305	1299	3487	3298
Total AMS + BB	3508	3330	3171	817	840
Total AMS	3508	3330	3171	767	748



	1995	1996	1997	1998	1999
AMS commitments	100	100	100	100	100
Total AMS + BB	73	72	71	19	20
Total AMS	73	72	71	18	18

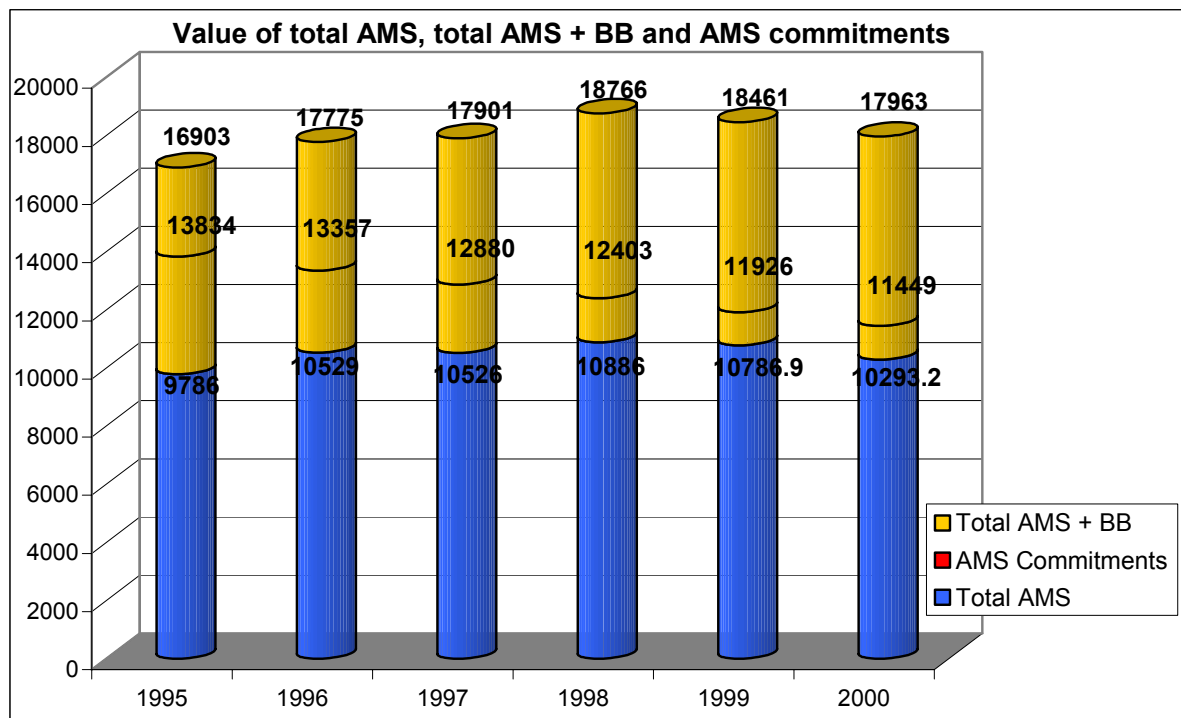


Annex II

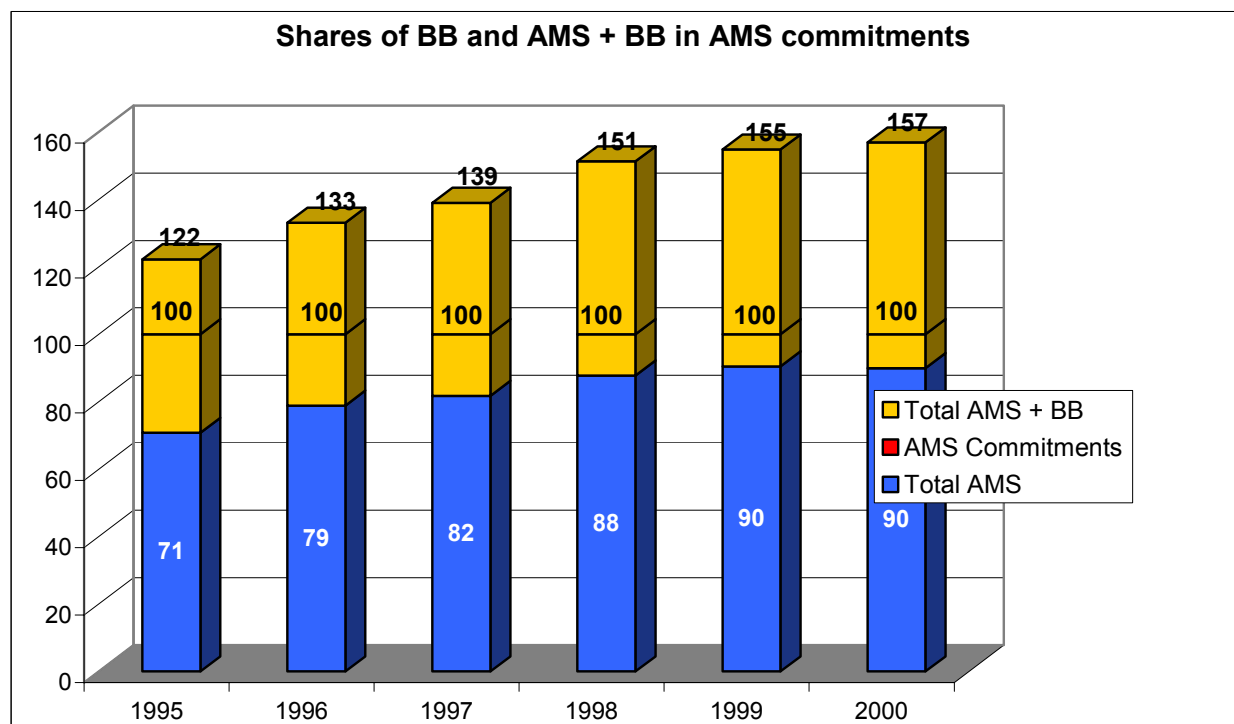
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

NORWAY

	1995	1996	1997	1998	1999	2000
AMS Commitment	13834	13357	12880	12403	11926	11449
Total AMS + BB	16903	17775	17901	18766	18461	17963
Total AMS	9786	10529	10526	10886	10787	10293



	1995	1996	1997	1998	1999	2000
AMS Commitment	100	100	100	100	100	100
Total AMS + BB	122	133	139	151	155	157
Total AMS	71	79	82	88	90	90

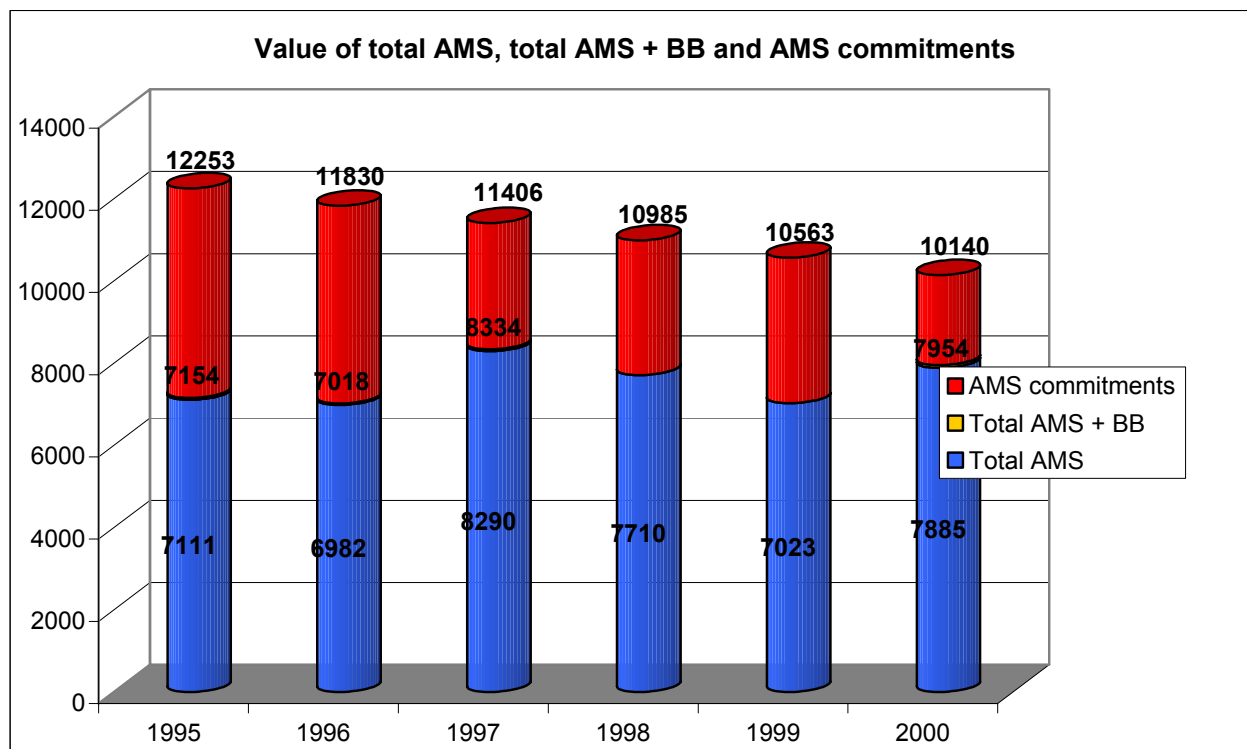


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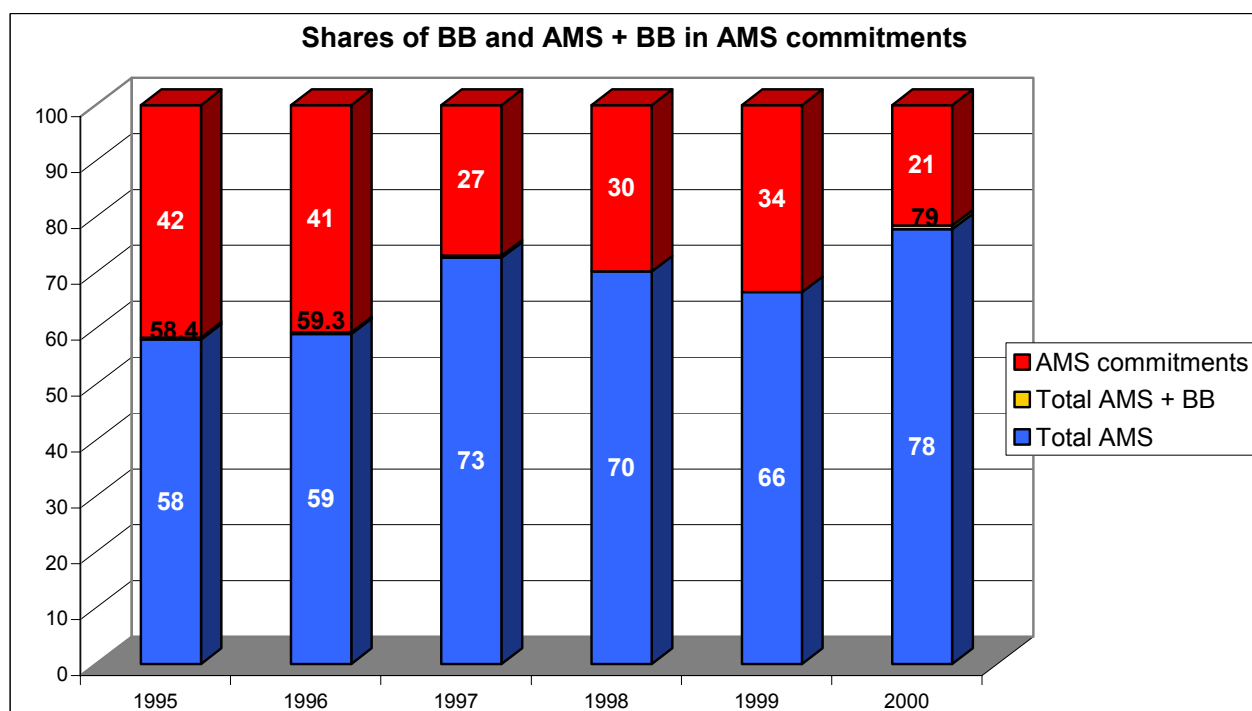
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

SLOVAK REPUBLIC

	1995	1996	1997	1998	1999	2000
AMS commitments	12253	11830	11408	10985	10563	10140
Total AMS + BB	7153	7018	8334	7710	7023	7954
Total AMS	7111	6982	8290	7710	7023	7885



	1995	1996	1997	1998	1999	2000
AMS commitments	100	100	100	100	100	100
Total AMS + BB	58.4	59.3	73.1	70.2	66.5	78.4
Total AMS	58.0	59.0	72.7	70.2	66.5	77.8

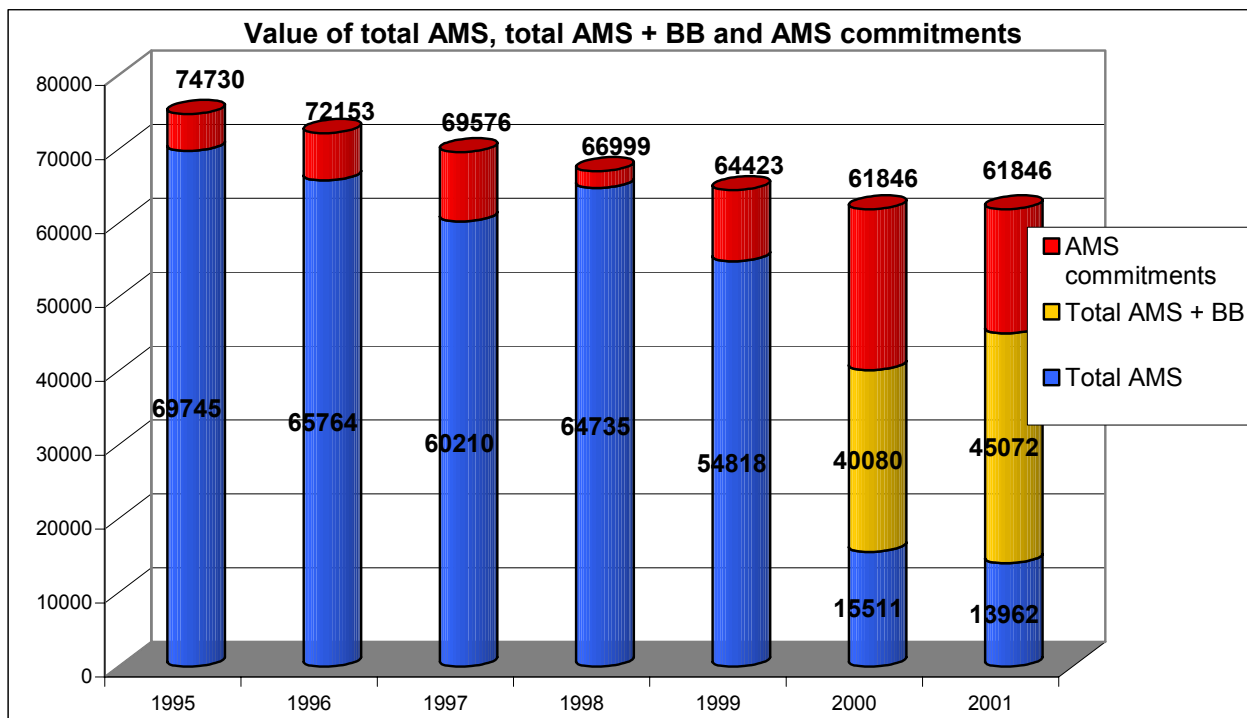


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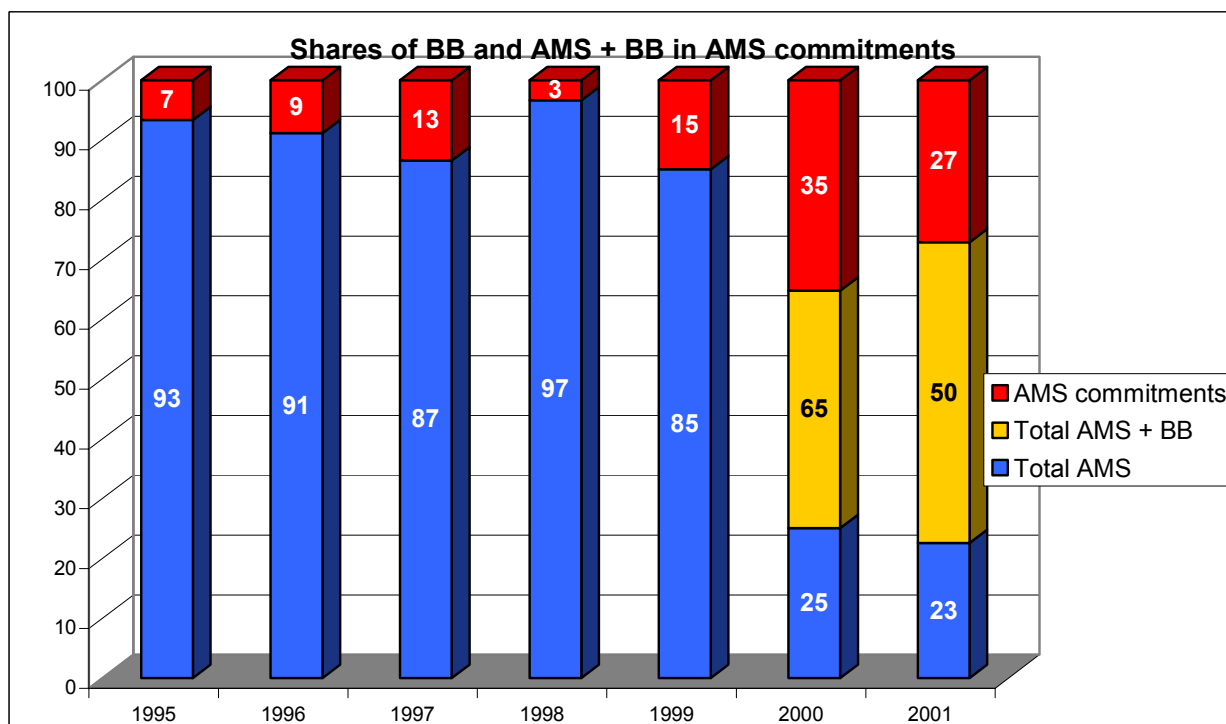
Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

SLOVENIA

	1995	1996	1997	1998	1999	2000	2001
AMS commitments	74730	72153	69576	66999	64423	61846	61846
Total AMS + BB	69745	65764	60210	64735	54818	40080	45072
Total AMS	69745	65764	60210	64735	54818	15511	13962



	1995	1996	1997	1998	1999	2000	2001
AMS commitments	100	100	100	100	100	100	100
Total AMS + BB	0	0	0	0	0	65	50
Total AMS	93	91	87	97	85	25	23

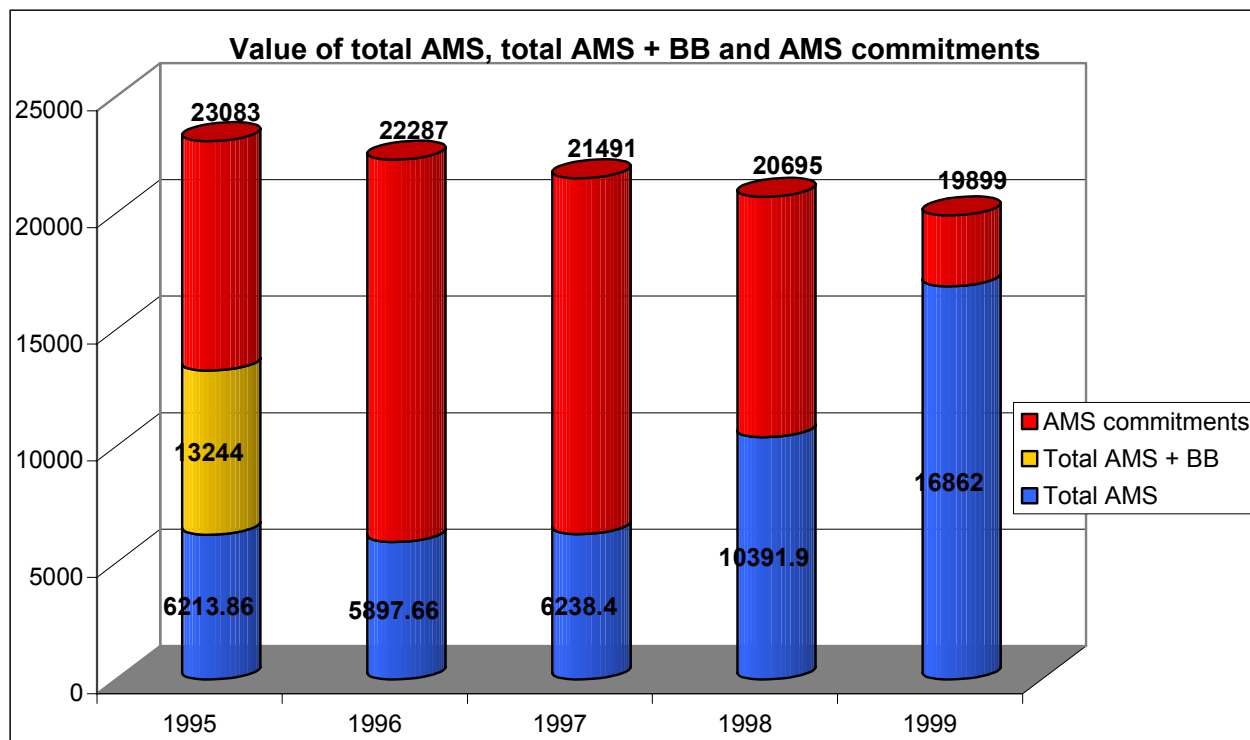


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Graphical results of the integration of the Blue Box into the Amber Box for the European Union, Iceland, Norway, Slovenia, the Slovak Republic and the United States

UNITED STATES

	1995	1996	1997	1998	1999
AMS Commitment	23083	22287	21491	20695	19899
Total AMS + BB	13244	5898	6238	10392	16862
Total AMS	6214	5898	6238	10392	16862



	1995	1996	1997	1998	1999
AMS commitments	100	100	100	100	100
Total AMS + BB	57	26	29	50	15
Total AMS	27	26	29	50	85

